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# THE ECONOMIES OF RICH AND POOR COUNTRIES

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**БИБЛИОТЕКА СТУДЕНТА**

**Май Волков, Крис Джеккинис, Лев Клочковский**

ЭКОНОМИКА БОГАТЫХ И БЕДНЫХ СТРАН

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## INTRODUCTION

The course 'Economies of Rich and Poor Countries' in the 'Student's Library' series put out by the Progress Publishers, Moscow, focuses on the laws intrinsic to the world economy with its co-existing and interacting poor and rich countries. Why are some countries rich and some, poor? Have they always been that way? What are the causes behind their division into two groups? Are they traceable to the different natural and climatic conditions and the uneven distribution of mineral resources? Or do they lie somewhere else? The authors of this manual aim at giving answers to these and other similar questions around which much of the worldwide public debate is centered.

The world economy does not exist in isolation from all other levels of economy—national economies, industries, individual enterprises, etc. That is why this book is supplemented by another manual in the same series, *A Concise Course on Economic Theory* (Progress Publishers, Moscow), which considers all levels of economy in their organic interdependence.

The human race has entered upon a special period in its development, one which is fraught with unprecedented problems and threatens its very existence. All countries, rich and poor alike, are facing the same fate. The *homo sapiens* ought to see to it that the Planet Earth, the cradle of civilisation that is probably the only one in the universe, is not turned into a common grave for all its living beings. Aware of the danger, man ought to find ways to avert it. First and foremost, he should neutralise the growing potential for conflict that lies in the world's division into the

rich and poor countries and in the contradictions this division generates.

The modern world is multifaceted, with each of its nations being unique and pursuing its own interests. Yet, there are goals shared by all humanity. For instance, the elimination of intolerable contrasts between wealth and poverty, between the increasingly rich and the increasingly poor, though hard-working, nations.

The gap between possibility and reality has never been so dramatic. The scientific and technological revolution and the productive potential accumulated the world over have put at humanity's disposal unheard-of ways and means of providing each inhabitant of the planet, regardless of his or her citizenship, with everything necessary for decent life. At the same time, never before has the world had such great numbers of the poor, the starving, the illiterate and the sick. Most of them live in poor countries. Paradoxically enough, these countries are exceptionally rich in natural resources and manpower. Their climate allows two or even three harvests a year. Why is it that their wealth does not help them to promote their own interests and they remain poor in terms of all possible economic indicators—the size of national product and per capita income, the level of consumption, life expectancy, nutrition, health care, literacy?

The answer can be provided by an analysis of the international economic relations in the context of which the exchange between the rich and poor countries occurs. This text-book considers the main forms of such relations.

The structure of the text-book is determined by the subject matter and the goals of a course on economies of rich and poor countries.

The first three chapters introduce the reader to the main problems covered by the course. The division of countries into the rich and poor ones is somewhat relative. It reveals the functioning of the mechanism of international economic relations. At the same time, it disguises the essence of economic processes. There are wealthy, sometimes extremely wealthy, people in poor countries. It is by banking on the poverty of the masses, shortages and economic difficulties

that big fortunes are made sometimes. Poverty can be found in its most abject forms, including starvation and homelessness, in rich countries.

The developing countries of Asia, Africa and Latin America, most of which cast away the colonial yoke after the Second World War, constitute the group of young nations usually referred to as poor countries. That is why in this text-book the same countries are termed 'poor' and 'developing' despite the fact that there are very rich countries among the developing ones (for instance, the oil-exporting countries in the Persian Gulf area). However, they face the same problems and find themselves in essentially the same position with respect to the rich countries as the rest of the developing world.

In this book the term 'rich countries' is applied to economically advanced capitalist countries, that is, Western countries. Although the socialist countries constitute part of the world economy and are different in their economic development levels and indicators, they are not classed together with either the rich group or the poor group. This is because the economic ties among socialist countries are organised along the lines different from those in the world capitalist market system. This issue is considered in the corresponding sections of the text-book. The specific relations that broaden the economic gap between countries and cause their division into the rich and poor ones are inherent in the international economic mechanism which does not comprise the socialist countries.

The economic science studies typical, rather than specific or occasional, relations. It seeks to reveal what is concealed by the outward manifestation of particular economic categories. This is important because many of the processes occurring in the world economy today are so complicated and ambiguous that their appearance may be mistaken for phenomenon, form—for content and phenomenon —for essence. Economic categories that are similar in their form can disguise essentially dissimilar and even opposed economic relations. For instance, each country involved in international credit relations is both a creditor and a debtor, sometimes simultaneously. However, the foreign debt

of a developing country and the foreign debt of such a highly developed country as the United States are essentially different phenomena, despite the fact that the statisticians and book-keepers at crediting organisations may register them in a similar way.

Chapters 4 and 5 deal with the international division of labour as the reason behind the growing interdependence of the components of the world economy.

Chapters 6 and 7 describe the special demands that the current scientific and technological revolution makes on the rich and poor countries.

Chapter 8 analyses the role played by the public sector in developing economies as a factor accelerating their development and promoting their economic independence.

Chapters 9 and 10 analyse the main areas of international economic relations, describing the role of foreign capital in developing countries and the latter's place in the international credit system.

Chapters 11 through 14 deal with the impact of militarism on development, the importance of economic integration, the essential characteristics of the new international economic order and the ways to achieve comprehensive international economic security.

Chapters 15 and 16, the last chapters of the text-book, sum up the previous material and draw the conclusion that overcoming the developing countries' backwardness and eliminating the current division of the world into the poor and rich nations constitute one of the global tasks of humanity. They expound some of the basic concepts that offer various alternative ways of development.

In the concluding chapters the authors describe the existing realities as follows: context of the increasingly aggravated global problems and such conflicting and controversial development tendencies as progress and backwardness, wealth and poverty, affluence and starvation, the existence of extensive areas of tension throughout the world and increasingly complicated international economic ties, growing interdependence of countries and peoples, the world's ever more obvious integrity amidst all the variety and diversity of its components. The way towards recognising,

understanding and addressing the objectively existing realities can only be opened up by a new political thinking, by new approaches to overcoming underdevelopment.

The issues covered by this course on the economies of rich and poor countries often provoke acute debate and uncontrolled emotion. Science, though, should not yield to emotion. Its main criterion is objectivity. It seeks the truth that does not depend on the researchers' ideological bias and the national interests of the country they represent. The literature on these issues, published in various countries, contains different, often incompatible, directly opposed views. The authors of this manual seek to avoid bias or commitment to any ideological concept. They seek to analyse economic realities objectively so that the readers could make their own conclusions and form their own opinion. They avoid indulging in ideological discussion or expressing their preference for any one concept so as not to impose their views on the readers. However, they hope that the book will provide material for discussion and that the discussion will reveal the truth. They try to avoid leaving the readers with the impression that what is said in the book is the truth in the last instance.

The authors think it proper to warn the readers that this book is not an easy reading. It is intended for unhurried and systematic work, for a certain input of intellectual effort. It is expected to set the readers thinking, rather than memorising ready-made formulas.

The authors seek to reveal the mechanism of international economic relations responsible for the sustained division of the world's countries into the poor and rich ones. The emergence, maintenance and broadening of the economic gap between countries, just as other results of the functioning of this mechanism cannot be considered as something accidental, as an outcome of the coincidence which might have not occurred. Science looks for general principles. Therefore, the readers should become participants in a scientific search for such principles. This book offers them a guideline, a kind of sailing directions to help them in their effort.

The same purpose is served by the questions provided at

the end of each chapter. They are intended to focus the students' attention on the main concepts discussed in the chapter. They are also designed to help them to check whether or not they have fully grasped the material. The authors recommend that they should go on to the next chapter only after this kind of self-examination. Moreover, the questions are expected to encourage the students' independent thought. It is hoped that they may come up with alternative answers to the questions. The teacher may wish to help the students by suggesting additional reading and by taking a critical approach to those of the authors' statements they do not fully agree with. This will only contribute to the students drawing closer to the knowledge of the truth.

At the end of each chapter discussion topics are also suggested. Although the text-book is intended for independent reading collective work is also expected.

The book is supposed to be read by students and their teachers. This means that awaiting the authors, who are all in their sixties now, is an encounter with young people, with the generation of those who will become the masters of the Planet Earth in the 21th century, and who will, hopefully, be more concerned about and caring for their common home than the older generation, to which the authors belong and which is handing over to the young a disbalanced world economy. That is why the book aims, among other things, to warn the young people, on whose activity the future of human civilisation hinges, about the difficulties on the road towards organising a better world.

The world can be restructured. This requires commitment and knowledge. The authors wish to share with young people the knowledge they have accumulated over many years of work under different conditions and in different countries. Professor May Volkov, who has been involved in the reseach programmes for 30 years in the Institute of World Economy and International Relations of the USSR Academy of Sciences, and for the same 30 years taught economic subjects at various higher education establishments, also worked, for 5 years, for the United Nations, participating in projects designed to promote the industrial

development of young states. Chris Jecchinis, Professor Emeritus of Economics, who for a long time was a lecturer and head of department at Lakehead University, Canada, and an executive with the United Nations, is an expert on economic issues with the Greek government and various international agencies within the UN system. Professor Lev Klochkovsky, head of the economics department at the Institute for Latin American Studies, the USSR Academy of Sciences, is known to the world scientific community as a participant in numerous international conferences and discussions on various problems relating to the economic development of poor countries and contemporary international economic relations.

Having thus introduced themselves to the readers, the authors are now ready to guide then from chapter to chapter, from problem to problem. They believe that their effort will not be wasted if, on closing the book, the readers find themselves committed to searching for the ways to end poverty, starvation, war, enmity, injustice and the suffering of large masses of people on our Earth.

CHAPTER I

# Poor and Rich Countries: A Result of the Laws of History, an Accident or Mishap?

As of June 1987 the world population grew to five billion people living in some 170 sovereign countries. Nearly 130 of them are described as developing countries, otherwise referred to as the Third World. They are mainly located in Asia, Africa, Latin America and Oceania, mostly south of the highly developed industrial capitalist and socialist countries. Developing countries, with the exception of several small Arab oil-exporting countries—Saudi Arabia, the United Arab Emirates, Kuwait, Libya and Oman —and such industrial centres as Singapore and Hong Kong, are also termed 'poor countries' as distinct from the rich countries—some two dozen of capitalist countries in Western Europe (Great Britain, France, the FRG, Italy, Switzerland, Belgium, Sweden and others) and North America (the US and Canada) plus Japan, Australia and New Zealand.

According to the International Bank for Reconstruction and Development (IBRD), in 1984 the average per capita GDP in the rich countries (described by the Bank as 'industrial market economy states') ran to $11,430 (15,390 in the US and 16,330 in Switzerland) whereas per capita GDP in the 36 poorest countries amounted to $260 (260 in India and 110 in Ethiopia), in the forty medium-income countries the corresponding figure was $1,250 ($450, in Mauritania and $1,620 in Syria) and in the 20 above the medium income countries, $1,960 (ranging from $1,700 in Chile to $7,260 in Singapore).[1]

On the average, per capita income in developing coun-

tries is eleven times less than that in the developed countries of the West. This gap is growing with time. The developing countries with a population of over two billion have practically turned into an area of wholesale poverty. This entails illiteracy, malnutrition, starvation, horrifying child mortality, and epidemics hitting hundreds of millions of people.

## 1. The Concept of Economic Gap

A country's wealth is the result of the constructive economic activity of its population embodied in the totality of material and cultural components of social culture that ensure development. This involves production growth, progressive changes in the structure of production determined by the achievements of the scientific and technological revolution, a better quality of life, and the satisfaction, on a growing scale, of the people's requirements both materially and culturally.

The basis for a country's wealth is formed by its productive forces, the accumulated products of its people's activity and, to a lesser extent, its natural resources. For instance, Zaire disposes of the largest deposits of such valuable minerals as cobalt, diamonds, copper, tin, zinc, manganese, uranium, iron ores, silver and gold; it also has fertile soils fit for growing manioca, corn, rice, bananas, coffee, sugar cane, and other crops. For all that, it ranks among the poorest countries of the world. By contrast, Japan has practically no natural resources and very little fertile land. However, it is one of the richest countries, and its performance in many industries is even better than that of the United States.

The most highly generalised indicators of a country's wealth are per capita Gross Domestic Product (GDP), Gross National Product (GNP) and National Income.

Gross Domestic Product is the total value of all the goods and services produced in the country over a year.

Gross National Product equals Gross Domestic Product plus or minus the balance of payments on current account. In the poor countries that register a chronic deficit of the

balance of payments the Gross National Product is below the level of the Gross Domestic Product.

National Income is the value created over a year. It equals the Gross Domestic Product minus the cost of the means of production (raw materials, fuel, energy, and other materials) consumed in the process of production during the year. The consumption and accumulation funds, as well as military expenditure, all come from National Income.

The difference in the per capita GDP in poor and rich countries is indicative of the economic gap between them. Over a historically long term this gap has displayed a stable tendency towards increase (see Table 1).

*Table 1*

**Per Capita Gross National Product (US dollars)[2]**

| Groups of countries | 1770 | 1870 | 1970 | 1984 |
|---|---|---|---|---|
| 1. West European countries* | 210 | 560 | 2,500 | 11,430 |
| 2. Developing countries** | 170 | 160 | 340 | 1,000 |
| 3. Ratio of 1 to 2 | 1.2 | 3.5 | 7.4 | 11 |

* 1984 — all the industrially developed market economies
** 1770 and 1870 — territories now taken up by the developing countries

The economic gap between the poor and rich countries reflects the backwardness of African, Asian and Latin American countries. The gap is constantly broadening, despite the comparatively fast economic and cultural development of some of them. The poor countries' backwardness is revealed in labour productivity that is much lower than that in rich countries in the obsolete structure of their national economies, in the underdevelopment of industrial and agricultural production and a low scientific and technological potential.

Labour productivity is the amount of product (goods or services) put out by one worker per unit of time. In 1980,

employed in the agriculture of the world's 36 poorest countries were 70 per cent of their labour force (70 per cent in India, 93 in Burundi, and 86 in Mali and Uganda). Year by year, some of them, were increasing the imports of foodstuffs because they failed to feed their own population with their own produce. By contrast, the United States, where only 4 per cent of the workforce was employed in agriculture, exported a considerable percentage of its agricultural produce. In the United States, labour productivity in agriculture is 50 times that of the poorest countries.

The poor countries' backwardness in terms of industrial production is still more striking. The rich countries form the industrial core of the world economic system, and the underdeveloped countries, its periphery. North America, Western Europe and Japan dispose of a modern industrial complex equipped with sophisticated machinery and putting out a wide range of consumer and industrial goods. The structure of their industries is quickly changing and their technological level is always on the rise. By the end of the 20th century, there appeared symptoms of a new technological upheaval stimulated by a large-scale introduction of robots in production processes and the spread of microcomputers and biotechnology.

As distinct from the rich countries, the poor ones are just embarking on a difficult path of industrial development. In a few of them—the so-called new industrial countries—industries are growing into a major sector of the economy. However, both in terms of their technological basis and production structure, these economies are only comparable to the yesterday's industrial picture in the rich countries. Many modern industrial enterprises in Asia, Africa, and Latin America are owned by foreign capital and should be considered as part of the industrial potential of the developed Western countries exploiting the land, natural and labour resources of developing countries.

The decisive sector of modern economy—science and technology—reveals the backwardness of poor countries in a most striking way. It is only in the training of national

cadres of specialists, among them scientists and researchers, that some of the developing countries (by no means all of them) have scored considerable successes. However, the national scientific personnel is far from used in a really effective way.

Table 2 gives a good idea of the economic gap between the poor and the rich countries.

*Table 2*

**The Developing Countries' Share* (in %), mid-1980s**

| Population | GNP | Industrial production | Scientific and technological potential** |
|---|---|---|---|
| 75 | 20 | 10 | 1 |

* Non-socialist countries
** The developing countries' share of the total number of patents.

The indicators for backwardness and poverty are interconnected. Thus, in the mid-1980s only 31% of the school-age children in the poorest countries attended secondary schools. By contrast secondary education in the developed countries has long been universal. While in the poorest countries there are 5,375 inhabitants per physician, in the United States there are 500. Average life expectancy in the poor countries is far below the level of the rich countries. It is 13 years less for men, and 18 years less for women. In the poor countries, 72 infants out of 1,000 newly-born babies do not live to be one year old. For the developed countries of the West, the figure is 9, that is eight times less.

A country's development level cannot be described by any one indicator. In 1971, the UN General Assembly resolved that a group of the least developed countries be distinguished among the developing countries. The aim was to elaborate special measures to check the further

broadening of the gap between the development level of the poorest countries and that of the rest of the Third World. Classed with this group were 36 countries. The criteria for grouping them together were the per capita GNP (of not more than $ 100 per year in the 1968 prices), the share of manufacturing industry in the GDP (of not more than 10%) and the rate of adult literacy (of not more than 20%).

According to the 1971 UN General Assembly Resolution included in the group of the least developed countries are 26 African countries—Benin, Botswana, Burundi, Burkina Faso, Gambia, Guinea, Guinea-Bissau, Djibouti, Cape Verde, Comoro Islands, Lesotho, Malawi, Mali, Niger, Rwanda, São Tomé and Principe, Somalia, Sudan, Sierra Leone, Tanzania, Togo, Uganda, Central African Republic, Chad, Equatorial Guinea and Ethiopia; nine countries in Asia and the Pacific—Afghanistan, Bangladesh, Butan, Yemen Arab Republic, People's Democratic Republic of Yemen, Laos, Maldive Islands, Nepal, Western Samoa and one country in Latin America—Haiti. In the early 1980s the population of the least developed and, consequently, poorest countries amounted to 290 million people, or 12.7% of the Third World's population.

The least developed countries are the very "bottom" of the Third World. In them, all the difficulties and problems usually faced by poor countries are the most acute, while the opportunities for development, overcoming backwardness and achieving a rise in the living standards are the least.

## 2. The Two Socio-Economic Systems and the Third World

The poor countries are also referred to as young states. Most of them gained political independence after the Second World War, some, in the mid-1970s, and some others, still later. Latin American countries mostly attained independence in the 1820s. Consequently, the poor countries share a common past—for a certain period they

had all been colonised by economically developed, i.e. rich, Western countries.

In 1945, by the end of the Second World War, the world had about seventy independent states, with the vast territories in Africa, Asia, Latin America and Oceania taken up by the colonies of Great Britain, France, the United States, Belgium, the Netherlands, and some other European states. In the post-war period nearly 100 sovereign states emerged in former colonies.

The newly-free countries were called 'the Third World' because by the time of their appearance two different socio-economic systems had already taken shape. One of them comprises the states whose economic system is based on private ownership and the other, the states whose economic system is determined by the public ownership of the means of production. The former group therefore comprises capitalist countries and the latter, socialist ones. The term 'Third World' was introduced in the international vocabulary by the well-known French scholar Alfred Sauvy on the eve of the 1965 Bandung Conference to describe the group of developing countries that differed in their essential characteristics both from the developed capitalist countries and the socialist countries.

It is impossible to name at least two absolutely identical countries among the countries of the world. Every country has its own peculiarities. In order to be able to identify the laws of development operative in all countries, to understand the reasons behind the existence of the rich and the poor countries and answer the question whether the division into the rich and the poor countries is a result of the law of history or whether it is an accident or mishap, it is necessary to leave aside the peculiarities of individual countries and to identify, instead, the essential common features observed in each of the two groups of countries. No scientific research in the economic sphere is possible without applying the method of abstraction. Here, it is impossible to use the methods widespread in physics, chemistry, biology, etc., such as *in vitro* experiments, measurements taken with the help of gauges and other instruments, field experiments, and so forth. The

main method of science-based economic analysis boils down to disengaging oneself from the secondary, outward aspects of phenomena and studying their essence.

The above discussion of the concept of economic gap between the poor and the rich countries proves that it can be described by a whole range of different indicators. The gap emerges and grows because of the considerable differences between the different countries' productive forces, dominant technologies and labour productivity. But countries differ from one another not only in terms of the development level of their productive forces. They also differ in their economic system and the type of social organisation within which the productive forces are actually applied and developed.

From the point of view of the economic system, today's world economy is divided into capitalist and socialist socio-economic systems—and into two interconnected world economies—the world capitalist economy and the world socialist economy.

The group of socialist countries comprises the USSR, and the East European countries—Poland, GDR, Czechoslovakia, Hungary, Rumania, Bulgaria, Yugoslavia, and Albania; Cuba in Latin America; People's Republic of China, Mongolia, Vietnam, Democratic People's Republic of Korea and People's Democratic Republic of Laos, in Asia. The economic development levels of these countries being different, they strongly differ in terms of per capita national income and other indicators. As distinct from capitalism, which has been developing over a historically long period of time, the above-mentioned countries have comparatively recently opted for socialism.

Distinguished within the world capitalist economy is the economically developed centre (rich countries) and an underdeveloped territory (poor countries) which depends on the centre and subordinates its economic activity to the centre's requirements.

In the area of world economy, just as in all other areas studied by the social sciences, there exist, apart from definite and typical phenomena and relations, many phenomena and relations of a transitional type. The borderline

between them is not distinct enough. It is only conditionally that they are referred to one group or another. In terms of some indicators they could be classed together with one group, and in terms of some other indicators, with quite a different group. Therefore, for all the clear-cut division of the countries of the world capitalist economy into the rich and poor countries, there exist a small number of countries of a transitional type.

Ranking among the highly developed capitalist countries are the 24 countries affiliated with the Organisation for Economic Cooperation and Development which they set up in 1961 (Turkey, regarded as a developing country, is the sole exception)—Australia, Austria, Belgium, Great Britain, Greece, Denmark, Spain, Italy, Canada, Luxemburg, the Netherlands, New Zealand, Norway, Portugal, the United States, Finland, France, the FRG, Sweden, Japan, Ireland, Iceland, Switzerland. The total population of these countries runs to 740 million, or 15 per cent of the world's population and 25 per cent of the population of the capitalist world.

Ranking with the capitalist world is also Israel and the Republic of South Africa. Five million white people out of the latter's population of 32 million make up a modern Western-type society. The majority of the population—indigenous Africans and other non-white people—find themselves, due to the policy of race discrimination and apartheid, in the same position as inhabitants of the least developed poor countries.

The group of developing countries comprises the non-socialist states in Asia (except Japan and Israel). Africa (except South Africa), Latin America and Oceania. There are more than 130 of them. They account for 50 per cent of the world population and 75 per cent of the population of the non-socialist world. Most of them belong to the Group of 77 which emerged within the framework of the United Nations in 1964. In those days the Group comprised almost all the developing countries. Since then, more countries have gained independence. Although the Group of 77 retains its name, its membership grew to 127 countries in 1987.

The division of the rich and poor countries into two groups denotes a formal difference between the developing and developed countries while concealing far-reaching, essential socio-economic distinctions.

In the developed countries, the system of modern productive forces forms the material basis for the economic structure of big private business under which small private businesses and the state sector play a comparatively less significant, subordinate role. The decisive role is played by major private corporations many of which operate in several, sometimes quite a few, countries. Such corporations are described as multinational corporations (MNCs). Monostructure as the main specific feature of this type of economic system is determined by the domination of big monopoly capital.

In developing countries, the productive forces are highly varied in terms of their technologies and level of development. In the majority of cases, predominant among them are obsolete, primitive, small enterprises whose productivity, by modern standards, is low. They mostly rely on manual labour and are organised in a multi-structure economy. Multi-structure economies imply the co-existence of different economic forms (in various proportions)—the public sector, the affiliates of MNCs based in developed capitalist countries, local big and medium-size businesses, small-scale commodity and subsistence production, let alone various transitional forms. Capitalism, which has already become an intergrated system in the developed countries, is still in the making in the Third World, evolving as it does at different rates.

The approach based on the division of the countries of the world capitalist economy into the rich and poor ones, depending on the development level of their productive forces and the character of economic system, is fundamentally different from the approach taken by a wide number of Western economists who divide the entire world into the rich North and the poor South proceeding from the single indicator—the size of per capita national income. Under this approach, grouped with the countries of the rich North are typologically different developed capi-

talist and socialist countries whose economic ties with the developing world are fundamentally different in terms of both their number and nature.

Their approach fails to take into account another important factor—the interdependence of the economic development of nations in the course of the world historical process. This kind of interdependence was characteristic of the age-long development of that part of the world where today's developing countries were colonies or semi-colonies of Western powers. None of the contemporary developed socialist countries has ever had colonies or maintained, in the course of their development, close economic ties with them. Jawaharlal Nehru once said: 'Nearly all our (independent India's—*Auth.*) problems today have grown up during British rule as a direct result of British policy'[3]. True, the blame for the many difficulties faced by India and other former colonies today should be put on Britain and other colonial powers, but not on the USSR and other socialist countries.

It is not overnight that the capitalist world became divided into the rich and poor countries. The division is the result of the world capitalist economy's evolution in accordance with the law of uneven development.

## 3. Uneven Economic Development

The economic development of various countries has never been and can never be even, depending as it does on a whole range of natural, climatic, demographic, social, historical, cultural, technological, organisational-economic, political, internal and external factors. Over the years, the economy of each individual country also develops unevenly. The combination of the above factors accounts for the generally uneven development of individual countries and nations in the course of the worldwide historical process.

History knows of the times when the most economically and culturally advanced civilisations were to be found in Asia, Africa and South America, while the vast expanses

of Europe and North America were in a barbaric, primitive state as regards the development level of the people inhabiting them. Delhi was a large thriving city with developed artisan production, flourishing trade, a significant accumulated wealth, the home of prominent scientists and statesmen at a time when Paris was not yet in existence and London was just emerging as a small primitive settlement.

Centuries have passed. The world situation has radically changed. The society that has taken shape in Western Europe, North America and Japan boasts the highest level of economic development, whereas the heirs of the great civilisations of the past have become reduced, despite their abundant natural and manpower resources and age-long traditions of advanced material and spiritual culture, to the status of underdeveloped provinces. In our times, the nascent unified scientific and technological civilisation of the human race is emerging from the economic structure of European, rather than Asiatic, African or Latin American, society. This by no means belittles the role played by the non-European nations in the history of humanity, in the development of the European society itself and in the creation of the scientific and technological civilisation of the future.

Why is it that European civilisation has been synthesising elements from cultures of various areas and nations, relying on them in its own economic growth and scientific and technological revolution, while the peoples who gave birth to many of such elements find themselves to be a backward and poor periphery of the world capitalist economy? Why does this happen despite the fact that, for instance, modern mathematics that provides the theoretical and methodological basis for modern science and technology relies on the decimal system of calculation which originated in India and reached medieval Europe via Arab countries. The 'Arab figures' replaced the European system of Roman numbers that could not match the progress of science. Wasn't it the great Indian astronomer and mathematician Aryabhata who proved, a thousand years before the Europeans did so, that the Earth revolves

around the Sun and who elaborated the classical fundamentals of algebra and trigonometry?

Finding an answer to this question is essential to the understanding of the reasons behind the division of the world's countries into rich and poor ones that occurred at a certain stage in the development of world economy. There was no division into the rich and poor countries even when the great civilisations of Ancient Egypt, Mesopotamia, India, the Far East, and of the Inca and Aztec states were blossoming and the people in Europe, Northern Asia and America, on the contrary, were organised in primitive societies. The division occurred fairly recently (practically not until this century) as one of the most characteristic traits of the world capitalist economy.

The answer to this question varies. For instance, the French economist Maurice Guernier, a member of the Club of Rome,* stresses the importance of natural and geographical factors. In his book *The Third World: Three Quarters of the World* published in 1980 as a report to the Club of Rome[4], he writes: 'The Third World is situated in the tropics. This explains all its difficulties'. The English scholar Graham Jones emphasises the role of national mentality. He believes that the lack of energy and initiative typical of the non-European peoples is the main reason behind their economic backwardness[5].

However, to judge from history, uneven development is observed in the countries situated in similar climatic zones and in peoples of similar economic inclinations.

During the hundred years from the mid-18th century to the mid-19th century, Britain, the world's industrial workshop, was in the vanguard of economic development. It treated the rest of the world as a backward, predominantly agrarian province. The late 19th century saw the beginning of the rapid economic development of North America, France, Germany and some other countries. Hav-

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* The Club of Rome is an international non-governmental organisation that was set up in 1968 to study global problems. It comprises nearly 100 economists from various countries elected by the members of the Club.

ing lost its world industrial monopoly, Britain gave up its place to the impetuously developing United States of America. It lagged behind the USA and then Germany ever more obviously not only in terms of economic growth, but also in terms of economic structure. The traditional industries—metallurgy, textiles, ship-building and allied industries—continued to dominate Britain's economic scene, whereas her young rivals were developing such new industries as machinery and chemicals, and catching up in the traditional areas.

In the middle of the 20th century, especially in the early post-war years, the United States turned into the dominant force of the Western world. In 1950, it accounted for more than 60 per cent of the GDP produced in the six main industrial countries—the USA, Great Britain, France, the FRG, Italy and Japan. Almost the whole of the gold reserve of the capitalist world was concentrated in the United States, and the US dollar gained the status of the world money. The owners of the formidable surplus capital that had accumulated in the country started to make investment in foreign countries, thereby compelling workers in other regions of the world to produce profit for American corporations. The United States was also in the vanguard of scientific and technological progress which became essential to modern economy.

However, the uneven character of development that brought the United States to the very top of the world economy in the mid-20th century, radically changed the situation in other advanced countries of the West a decade later. On the world market, the United States started to feel pressure from the West European countries which by that time had managed to restore their war-ravaged economies and became united in the European Economic Community, otherwise known as the Common Market. Japan, which had far outstripped all the other Western countries except the USA, was also effecting its pressure. Originally integrated in the European Economic Community (EEC) set up under the Treaty of Rome signed in 1957 were six countries—France, the FRG, Italy, Belgium, the Netherlands and Luxembourg. In 1973 they

were joined by Great Britain, Denmark and Ireland; in 1981, by Greece, and in 1986, by Spain and Portugal.

In the middle of the 1980s the centre of the world capitalist economy came to be dominated by three distinct rival forces (the USA, EEC and Japan) developing at different rates. Their internal development was also uneven. Table 3 shows the share of each of the seven major industrial capitalist countries in their aggregate GDP.

*Table 3*

**GDP of Major Developed Countries**
(average annual data for 1981-1985)

| | Total | USA | Japan | FRG | France | UK | Italy | Canada |
|---|---|---|---|---|---|---|---|---|
| $ bln 1982 prices | 6,793 | 3,225 | 1,190 | 675 | 545 | 493 | 352 | 315 |
| % of total | 100 | 47 | 18 | 10 | 8 | 7 | 5 | 5 |

Formerly the world's only wodkshop, today Britain comes fifth in the capitalist world hierarchy. Japan, defeated in the Second World War, emerged with her economy shattered and population impoverished. Today, however, it leads the capitalist world, and is second to the USA, in terms of output; in 1986 its per capita GDP was even greater than that of the USA ($17,000 against $16,000) and ranks first in scientific and technological progress, filling the entire world capitalist market with its own industrial goods. In 1987 it compelled the United States to resort to such emergency measures in the trade war against the Japanese industrial goods as the introduction of a 100 per cent customs duty.

A comparison of the outcome of the post-war development of rich and poor countries as the two sub-systems of the world capitalist economy provides a highly controversial picture. It brings the uneven character of development into sharp focus.

The newly-free young states have scored stunning successes in their economic development. As a rule, the average rate of growth of their aggregate GDP exceeds the corresponding figure for developed countries. The 'green revolution' that spread to many developing countries created centres of modern, science-based agricultural production and made possible an abrupt rise in the yield of food crops. India, for example, became almost fully self-sufficient in terms of grain supplies. Occasionally, it can even afford to export some of the grain.

Many developing countries have launched intensive industrialisation programmes. Industrial centres and sometimes whole industrial areas emerged in Asia, Latin America and even Africa. Today's independent India exports not only her textile mill products and apparel but also the products of her metallurgical industry as well as modern machinery and equipment to other countries, among them industrial ones.

However, due to the increased population growth rates, the rise in economic indicators, including per capita GDP, proved to be modest, to say the least.

Moreover, despite the accelerated economic growth registered by developing countries, the gap separating them from industrial countries has not been closed. On the contrary, it has grown wider.

This apparent paradox can be accounted for, among other things, by two factors. First, the sectoral and technological structure of economic growth in the developed countries differs from that in the developing countries. In the developed countries, the average production growth rate conceals the particularly fast growth in the new and emergent industries and divisions that fully reflect the scientific and technological revolution and, consequently, noticeable improvement of the quality of output not always accompanied by an appreciable increase in its quantity. As some of the traditional industries were transferred from developed to developing countries, the volume of production and consumption of some particular goods diminished. The achieved scientific and technological breakthrough set the stage for more profound structural changes

bound to occur in the near future. In developing countries, production growth is largely accounted for by traditional industries and products. This explains why, despite the overall production growth, the Third World is still more obviously lagging behind the developed countries in terms of technology.

Second, economic growth has not always benefited the Third World itself. Part of the developing countries' product and revenue was taken away from them by developed countries through the mechanism of international economic relations, increasing corporate profit and strengthening the economic potential of the highly developed centre of the world capitalist economy.

## 4. Differentiation of the Third World

The uneven nature of development is a decisive factor in the economic advancement of the developing countries. The conditions in which they set about building their post-independence economies were far from equal because originally their disparities were enormous and multifaceted.

They had been under colonial rule for different periods of time and therefore foreign domination had a different impact and left a different legacy in each of them. They did not all gain independence simultaneously. India, for instance, won it in 1947, after two hundred years of a colonial status within the British Empire. The independent Republic of Zimbabwe was proclaimed as late as 1980. Hong Kong is still in the possession of Great Britain, and it is planned to be returned to the People's Republic of China only by the middle of 1997.

By the time of their liberation the developing countries had achieved different levels of development and had different economic structures. The different social forces that came to power in each of them held different—progressive or regressive—views of their countries' future socio-economic development and political orientation.

They differ in the size of their territories, natural wealth, mineral resources and arable land, and have different

climatic conditions—from arid deserts to humid tropics.

The size of their population varies from 750,000,000 in India to a million and even less in many countries (the Republic of Vanuatu has only 17,000 inhabitants, which is comparable to the population of a large Indian village). The density and structure of the population also vary from country to country. In some of them, part of the population is still nomadic.

The initial distinctions between the developing countries are not ironed out in the process of economic growth. On the contrary, the Third World gets ever more differentiated, which can be seen from the indicators registered in its different parts. As a result, there emerge different types of developing countries with their specific problems and economic interests.

Strikingly different in developing countries are their GDP growth rates. Some of them boast high growth rates, while others suffer from an absolute decrease of production. Per capita GDPs vary greatly. They may register strikingly different basic economic indicators depending on the times. Changes in political power usually cause abrupt changes in social and economic development targets and economic plans. As a result, in terms of economic indicators, the difference between countries within the Third World is sometimes more striking than that between the developed capitalist countries and the Third World as a whole. For instance, in 1984 the per capita GDP of the United Arab Emirates ($21,920) was 84 times that of India ($260) and 199 that of Ethiopia ($110). At the same time, in terms of industrial development and scientific and technological potential, India has far outstripped the United Arab Emirates.

Differentiation covers all aspects of social development in the Third World countries. Based on particular criteria, several typological groups of countries can be identified.

In terms of the general strategic orientation of social development, the Third World has socialist-oriented and capitalist-oriented countries, as well as countries that have not yet chosen any definite path of development. Each of

the groups comprises states having various production specialisation and development levels described by radically different per capita production indicators.

In terms of production specialisation, the Third World countries can be divided into oil-producing and oil-exporting countries; countries focusing on the accelerated expansion of industrial production, including export-oriented production (new industrial countries); predominantly agrarian countries with export-oriented agricultural production, and some other groups.

From the point of view of their involvement in the world economy, the Third World countries can be divided into the ones pursuing the policy of self-reliance and restricted foreign economic relations and those having open economies, seeking to attract foreign capital and expand their exports.

In terms of income, the International Bank for Reconstruction and Development divides the Third World countries into four groups—low-income countries (in 1984 their per capita incomes varied from $110 to $380 and running to an average of $240), medium-income countries (with per capita incomes ranging from $450 to $1,620, and running to an average of $1,250), the above medium-income countries (with per capita incomes varying from $1,700 to$7,260 and running to an average of $1,960) and the richest oil-exporting countries (with per capita incomes ranging from $6,490 to $21,920 and running to an average of $11,250).

Since the Third World's differentiation grows with time, the question arises whether it is at all possible to regard developing countries as a single group. In his book *The Imperative of North-South Cooperation. The Synergy of the Worlds* (1981) presented as a report to the Club of Rome, the French economist Saint-Geours wrote that it was entirely wrong to approach the Third World as a homogenous community of countries with similar cultures and economies[6]. It was proposed that the oil-exporting countries, for instance, should be united in a separate, "fourth world" while the least developed countries should be grouped together to form a "fifth world".

Indeed, the distinctions between individual developing countries are growing ever more obvious. However, if we want to identify the most meaningful factors behind the division of the countries in the world capitalist economy into the rich and poor ones, we should find out what makes, despite the growing distinctions, for their similar position within it.

There are two main factors. First, their sharing the fate of dependent and exploited provinces of the world capitalist economy and having a stake in opposing exploitation and campaigning for equal rights on the world market. This shared position accounts for their united economic platform, their call for a new international economic order; second, their common task of overcoming backwardness and ensuring self-reliant, accelerated development that can provide for the solution of acute social and economic problems inherited from the colonial past and coming to the fore, over and over again, in the course of their present development (largely determined by the advanced industrial centre).

## 5. The Law of History

The developing countries are far from competing with the developed ones. They do not aim at catching up with them or structuring their economies after the models found in North America, Western Europe and Japan. They have their own problems, and their peoples make independent decisions concerning the economic and social system they wish to create in accordance with their own understanding of human values and social ideals. At the same time, they all have to do away with malnutrition, starvation and mass poverty, providing conditions for decent life everywhere, rural areas included. This implies sufficient supplies of drinking water, fuel and energy for domestic needs, provision of homes and opportunities for productive labour, and sufficient income. They have to prevent epidemics and reduce morbidity, and bring child mortality to the minimum relying in this on modern medicine, secure for the rising generation educational and vocational

training opportunities essential to their future functioning in modern society, eliminate adult illiteracy and do away with mass unemployment that reduces a considerable percentage of their population to the status of 'needless people' and hampers effective utilisation of the national production potential for the purposes of accelerated development.

For all the importance of comparative characteristics, the degree of backwardness can best be judged from the make-up of society. The French economist J.-M. Albertini was right in saying that backwardness was not simply an economic lag mirrored in indicators lower than those registered in developed countries but rather a certain inability to develop.[7]

To determine or measure the degree of development is probably the most complicated task of all. Sometimes development is identified with economic growth whereas progress in development is measured by the annual growth rate of the GNP or national income. The experience of various developing countries, above all those which at a certain stage registered high economic growth rates, shows that such identification is unwarranted. For instance, Iran registered high growth rates of the GNP during a fairly long period of time (up to the late 1970's). People talked about the 'Iranian economic miracle'. However, high economic growth rates did not help the country to overcome its backwardness and solve its grave social and economic problems. The events that occurred in the country flung it far back both in terms of national economy and of the general cultural state of its society. There is no denying the fact, though, that this was largely promoted by the senseless, long and bloody war against Iraq.

Economists of various trends have become critical of 'economic growth without development'. They started to see development as something measured not only quantitatively, but also qualitatively. Since the mid-1970's the concept of 'basic needs' has become especially widespread.[8] According to it, the strategy of poor countries' economic development should be subordinated to the task of satisfying the basic needs of the underprivileged section of

the population that in fact constitutes its majority. Thereby, as the authors of the concept see it, the motive forces of economic development can be brought into play and a good start can be given to accelerated overall economic growth. However, they failed to fully agree on what basic needs actually were.

The concept of 'basic needs' negates the theories according to which development is aimed at maximising accumulation and investment, increasing production growth rates and modernising the economy.

The opposition by the theoretical concepts of consumption growth to the maximisation of accumulation expresses the actually existing controversial link between these important categories of economic reality. The Gross Domestic Product is partially used to maintain the life of society and its members and partially, to insure reproduction on an enlarged scale.

Reproduction is the constantly renewed process of production whereby new means of production are created instead of the consumed ones and conditions ensuring a certain socio-economic type of production are maintained. One should distinguish between reproduction on a simple scale, under which the scale of production remains unchanged year by year, and reproduction on an enlarged scale, under which the volume of production grows year by year.

*Table 4*

**Gross Domestic Product or Expenditure**
(in 1984, %)

| Countries | Gross Domestic Investment | Consumption expenditures | |
|---|---|---|---|
| | | public | personal |
| Developed capitalist countries | 21 | 17 | 62 |
| Least developed countries | 25 | 13 | 64 |

Table 4 shows that the rich and poor countries utilise their GDP in roughly the same way. However, because of the big difference between their GDP, especially per capita GDP, the similar structure of GDP conceals its essentially different actual results. In poor countries, the percentage of the GDP that goes to personal consumption expenditures is not large enough to keep the living standards at a level corresponding to modern conditions; the percentage that remains at the disposal of the state cannot ensure an effective performance of state functions, the more so as it is often used inadequately, channeled to nonproductive military spendings. The percentage of the gross domestic investment is too small to finance long-term economic development designed to overcome backwardness.

In this context, the increase in personal consumption essential to the majority of the population limits the opportunity for long-term economic development, while the strengthening of production potential, which could make for an increase in personal consumption in the future, requires certain sacrifice on the part of the population compelled to restrict their consumption at the present time. This vicious circle can only be broken down by combining two sources of accumulation funds—internal ones (created through mobilising resources, ensuring their rational use and making more effective investment, without diminishing mass consumption) and external ones (attracted from other countries—on terms respecting the national sovereignty of the host country—and channeled to the top-priority areas of the national economy under state control). The poor countries are compelled to look for credits for their development. This explains (see Table 4) why the total sum of their investments and consumption expenditures exceeds the total size of their GDPs.

By contrast, rich countries register relative overaccumulation of capital which cannot be used at a profit nationally. Although the average level of consumption here is higher than in developing countries, its distribution among the various sections of the population is extremely uneven. Rich countries, too, know of misery and poverty, part of their population suffering from malnutrition, a

lack of decent living conditions, unemployment and homelessness.

Social stratification in rich (developed capitalist) countries, inequality in terms of property and dramatic contrasts in living standards and the volume and structure of consumption, come natural to society based on private enterprise and divided into the owners of capital and the working people, whose interests are opposed.

The division of the world capitalist economy into the rich and poor countries is also a natural result of the enterprising activity of the owners of capital whose immanent tendency is to constantly expand their activity beyond the state borders.

Private entrepreneurs inevitably become involved in competition. With success, they broaden the sphere of their activity at the cost of those who lose their positions and even go bankrupt. The key positions in the economy are taken by major corporations many of which spread their activity to the territory of other countries. The advantages enjoyed by major corporations become especially meaningful in the modern era of scientific and technological revolution, making it possible to appropriate the latest achievements of science and to develop and apply sophisticated technology. Not only big corporations dominate the sphere of production but they also exercise control over the sphere of exchange both in their own countries and on the world capitalist market.

Contrasted to the big corporations that make up the core of the rich countries' economic potential are economically weak developing economies insufficiently integrated even on the national scale. Most of the developing countries have a small population, a limited domestic market and limited economies. Therefore, found on the world capitalist market are unequal partners. The immutable laws of market economy predetermine the results of such inequality—the growing concentration of social wealth in the economically powerful, developed centre, no matter where, on which national territory, this wealth is actually created.

The picture of economic inequality is supplemented by

the foreign economic policy conducted by the rich countries' governments to the detriment of the lawful economic interests of developing countries.

In the developed centre of the world capitalist economy the power of major corporations merges with state power which relies on the many and varied effective economic and non-economic levers used to mould the situation in these countries and determine their involvement in international economic relations. The governments of rich countries are especially active in the economic domain in the times of crisis, when the market mechanism fails and major private corporations are in need of additional support.

The foreign economic policy conducted by the governments of rich countries is aimed to strengthen and perpetuate inequality that has taken shape in the world capitalist economy. Among the political levers are discrimination, restrictions, economic blackmail and violence that sometimes take on the form of sabotage and even international economic state terrorism. Systematic attempts are made to interfere in the domestic affairs of developing countries, thus encroaching upon their national sovereignty and hampering their programmes of economic and social development. As a result, developing countries' economic inequality within the system of the world capitalist economy is enhanced by their traditional 'divide and rule' policy conducted by the dominant forces of the system.

Operating in the world capitalist economy are powerful objective and subjective economic and political factors which determine its natural, rather than accidental, split into the poor and rich countries. That the larger part of the world's population lives in poor countries is not a historical mishap, but the result of the age-long evolution of states which have various levels of development and are interconnected through a system of economic relations. This result is determined by the very nature of the economic system based on private entrepreneurship and the domination of large private corporations.

For developing countries, overcoming poverty means

overcoming backwardness. Therefore, economic and social progress is essential to them, as was stressed above, not in order to 'catch up' with the rich countries and imitate their economic structures and social make-up, but in order to achieve equality, be able to uphold their economic interests in the international economic arena, overcome poverty and solve the vital problems facing the peoples of Africa, Asia and Latin America.

That a few comparatively small developing countries have high incomes and per capita GDP and are thus standing out against the background of other developing countries can be accounted for the unique combination of the world market conditions that favoured them over a brief period of time and the successes they scored in the joint decisive offensive they launched against Western corporations in a relatively limited area of mutual confrontation, i.e. on the world oil market. Their specific position is an exception to the rule that proves the rule. For the majority of poor countries, especially the least developed ones, it is practically impossible to have the same experience as the richest oil-exporting countries had for a brief span of time. In the mid-1980's they again found themselves in a difficult economic situation. It is equally impossible for them to imitate the experience of the new industrial states whose impetuous economic growth, too, is already a matter of the past. Therefore, the task is for the whole of the Third World to become capable of overcoming its present economic backwardness.

In order to identify the ways to overcome backwardness it is essential to understand its causes and origins, to study its historical genesis.

*Questions for Self-examination*

—What is meant by the Gross National Product and in what ways does it differ from the Gross Domestic Product?

—What are the main indicators of the poor countries' economic backwardness?

—What are the criteria used by the United Nations to identify the group of the least developed countries?

—What are the reasons for the unequal economic development of individual countries?

—What are the factors contributing to the differentiation of the Third World?

—What are the factors that doom the Third World to economic backwardness?

*Topics for Discussion*

—Wealth and development.

—Industrialisation and agricultural development: do they rule out or complement each other?

—Capitalism, socialism and the Third World.

CHAPTER 2

# The Origin of Economic Backwardness

To get a better idea of the contemporary world economic system and to find ways to overcome backwardness in many parts of the world, it is very important to know when the division of countries into the rich and poor ones took place and how the peoples of Asia, Africa and Latin America became economically backward, as compared to North America, Western Europe and Japan.

Differing in their history, African, Asian and Latin American peoples have one thing in common: for a relatively long period of time (ranging from five hundred years to several decades) nearly all of them were under the domination of one European state or another (or late in the 19th century, of the USA) as parts of colonial empires.

The first European country to seize foreign territories on the African continent, back in the 15th century, was Portugal. Soon after Christopher Columbus's eight-month-long voyage across the Atlantic, Spain raised its flag on the American coast. In 1494, Pope Alexander VI drew a vertical line on the map, proclaiming all the lands to the east of it as belonging to Portugal, and to the west—as belonging to Spain. The following centuries saw a great many colonial wars on all continents, both between the European states themselves and between the Europeans and the peoples of the overseas territories defending their independence. By the beginning of the 20th century the territorial division of the world ended and the colonial empires started wars for the re-division of what had already been divided.

**The Colonial Population in 1914**
(out of 1.8 bln, of world population)
(in mln)

| | | | |
|---|---|---|---|
| British colonies | 394 | Belgian, Dutch, Spanish and Portuguese colonies (taken together) | 45 |
| French colonies | 56 | German colonies | 12 |
| Japanese colonies | 19 | US colonies | 10 |

Before the First World War, the British colonial empire included the following colonies: in Europe—Ireland, Gibraltar and Malta; in Africa—Nigeria, Gold Coast, Sierra Leone, Gambia, Mauritius, Somaliland, Uganda, Kenya, Zanzibar, Nyasaland, Rhodesia, Swaziland, Basutoland, Bechuanaland, Anglo-Egyptian Sudan and the Seychelles Islands; in Asia—India, Burma, Ceylon, Malaya, Cyprus, Sarawak, Brunei, North Borneo and Aden; in Latin America—British Honduras, British Guiana, Jamaica, Trinidad and Tobago, Barbados and some other islands in the Caribbean Sea and the Atlantic, Indian and Pacific Oceans. The conquerers prided themselves that "the sun never sets down in the British empire".

The French colonies embraced a large part of the African continent, Indochina and some territories in Asia and South America and many oceanic islands. The biggest Belgian colony was Belgian Congo in Africa, and the biggest Dutch colony—Indonesia in Southeast Asia. Germany dominated in Tanganyika, the Cameroon, Togo and Namibia in Africa, plus some other territories; Japan conquered Korea; the Portuguese colonial empire incorporated Angola, Mozambique, Guinea and other territories; Spain enjoyed its power in the countries which once were part of the biggest colonial empire. Following the war with Spain at the turn of the 20th century, the US took the Philippines, Cuba, Puerto Rico and extended its influence to some other Latin American states which only formally retained their political independence.

## 1. Asia, Africa, America and Europe on the Eve of the Colonisation

The known history of human society is millennia old. The division of the world into the rich and poor countries began not so long ago and was connected with the formation of the colonial empires and the emergence of the world system of capitalist economy and exploitation. Those countries which had colonies or maintained close economic relations with the metropolitan countries or had the likely social structures and the corresponding level of productive forces grew ever more rich. Whereas the colonial and dependent nations were doomed to poverty, since the colonial rule hindered their social progress, adjusting the colonial economies to the needs of the metropolitan countries.

At different times, Asia, Africa and America saw the rise of civilisations, highly developed for their time, whose peoples knew how to work efficiently, taking advantage of the specific natural and climatic conditions they lived in. Those civilisations developed mainly on their own, although economic relations between them were established long ago. Ships loaded with goods ploughed the seas and sailed up and down the rivers, and merchant caravans covered long distances across deserts, mountains, uninhabited and densely-populated areas. Frequent wars and invasions of foreign countries devastated huge territories, yet the economic activity of people themselves was, at times, irreversibly detrimental to the environment. Only legends and some items of material culture hidden deep down in the earth remained after the once flourishing civilisations. A single world economic system began taking its shape only after West European states, whose economies were already based on capitalist relations, started to annex foreign territories. As a result, the old civilisations went to ruin and the peoples living on the taken territories found themselves in a position of dependence. That meant that henceforth their social, economic and political development was subjugated to the interests of the ruling classes in metropolitan countries.

In the pre-colonial period, the dominating form of production in many African, Asian and American countries was a small (household) peasant farm. Land was mainly a communal property, rather than private, the state pursued an active economic policy by building and maintaining irrigation systems, and small crafts flourished. The urban and rural population suffered from merciless exploitation, while the rulers enjoyed unlimited power. Society was divided into groups of people according to their property, social and political status, with a caste system emerging in some countries. The productive forces were in a state of stagnation and were unable to promote any technical progress. In those regions of Asia, Africa and America, where climatic conditions were similar the same type of economic systems (obviously with the certain specific features) was forming.

Even less promising were the nomadic tribes grazing their cattle in the vast areas unsuitable for farming.

Despite the existing foreign trade which connected even far-off countries (say, Chinese silks reached as far as the western coast of Europe), as well as the internal trade (buzzling bazaars were the hallmark of every oriental town and the merchants were always among the richest in society), the dominating form of economy in Asian, African and American civilisations was subsistence economy. Most of what was produced was consumed by the producers themselves, while the exploiting classes appropriated the surplus product and sometimes even the necessary one, relying on the extra-economic coersion, rather than on the purchase-and-sale relations.

In any society, the product of labour is divided into the necessary product and the surplus product. The necessary product is the part meant for the internal consumption by the producer's family. The surplus product is that part which goes for the accumulation funds, for satisfying social needs and for meeting the requirements of the exploiting classes where society is divided into the exploiters and the exploited. Part of the surplus product covers military spendings.

In Western Europe, as distinct from other regions, the

rapid disintegration of the subsistence economy, which started at a certain stage, was accompanied by the growing social division of labour, the formation of the commodity production and the accumulation of the merchant (and the usury) capital. The exploiting classes in Western Europe, where climate was harsh and natural resources were scarce, and whose production base was even lagging behind some oriental countries, were interested in a big variety of goods from the East—spices, silks and other fine fabrics, tea, ivory, indigo, precious stones and metals, jewellery and other articles of handicraft, carpets, tableware, etc. As a result, trade—primarily international trade between the West European countries and between the East and the West—was further extended, and the merchant capital and, correspondingly, the class of merchants and bankers began to play an important role in the European economy.

New capitalist relations also penetrated the production sphere, first manufacturing industry, undermining the traditional crafts and the guild system in medieval towns, and then in agriculture, eliminating the numerous class of small peasantry and introducing instead a farm system.

While the traditional economic forms remained intact in the rest of the world, Western Europe was involved in the process of the primary formation of capital, which meant that capitalists gradually deprived the producers of the means of production, turning the latter into private property. The powerful capitalist tendencies in West European economy and the gradual transfer of power from the class of feudals to the newly-emerging class of the bourgeoisie gave a strong impetus to the European states' most aggressive colonial policy.

Seizing Asian, African and American territories, plundering them of their natural wealth, enslaving free peoples and reviving slave-trade were part and parcel of the process of the primary accumulation of capital in Western Europe.

The development of capitalism in Western Europe and accelerated advance towards a new type of the society—capitalist society—gravely affected the old civilisations in

Asia, Africa and America that fell victim to the expansionist policy triggered off by the process of the primary formation of capital.

## 2. The Fall of the New World Civilisations

At the time when the Spanish and Portuguese colonisers reached the hitherto unknown continent, the dominating form of capital in the advanced West European countries was merchant and pecuniary capital, while in Spain and Portugal feudalism was still in its prime. These circumstances determined the forms of economic activity in the colonies aimed at meeting the interests of the ruling classes in Europe, and the consequences of the colonialist policy for the indigenous population. The first form of the economic activity was an overt plunder of colonies, accompanied by violence and mass annihilation of people and the destruction of towns and local production structures.

The conquerors needed only gold. Seeking gold they devastated huge territories, never trying to preserve the material culture of the conquered people. The influx of gold and silver from the New World brought about a very sharp rise in prices on all commodities in Europe. This gave further incentives to capitalism, the bourgeoisie grew richer, while the feudals were ruined and ordinary people gradually impoverished. Under these circumstances, the Spanish and Portuguese feudals left their native country, finding refuge in the New World colonies.

The second form of economic activity in the colonies was introduced by the immigrant feudals who tried to set up there an economic system which had already outlived itself in Europe and had been replaced by capitalism which secured the rapid technological progress.

As a result, a unique Latin American civilisation came into being—an odd combination of the remaining elements of the pre-colonial culture with the most backward social forms imported from Europe. The local population was ousted from the land that was its age-long property,

and was partly annihilated. The upper stratum of the Spanish and Portuguese settlers appropriated vast territories (land property was the main form of wealth under feudalism) and revived slavery (a great many of black people of all ethnic groups were brought from Africa and sold into slavery by Spanish and Portuguese slave-traders).

Thus, a social system emerged which was extremely inert and unable of adopting any advanced economic methods or technology. The signs of stagnation in the colonial system became even more prominent because of the strong political pressure from Spain and Portugal and because of the ever growing taxes imposed by the metropolitan countries. Colonies continually increased their supplies to Europe of cane-sugar, tobacco, precious and other metals—the result of slave labour on plantations and mines. Europe, in its turn, shipped back luxuries for the colonial aristocracy, several essential commodities, weapons, but not machinery or goods which could have encouraged economic development of the colonies. Moreover, the crown prohibited to develop any industries or to introduce advanced economic methods in colonies.

Thus, Latin American economy was doomed to a long period of stagnation, the consequences of which are felt to this day, although more than 150 years passed after Latin American countries won their political independence.

However, Spain's and Portugal's colonial policies in the New World failed to boost their own social progress. In fact, both countries slowed down in their development because the ruling classes got an opportunity to prolong their sponger's existence at the expense of the colonies. They failed to make whatever use of the gold, silver and other material wealth arriving from colonies, neither for promoting economic reforms to develop their own economies nor for securing technological progress. Gold and silver passed through the country without staying there for long, and, exchanged for the manufactured goods, fell into the hands of capitalists from the devel-

oped European countries—Holland, in the earlier period, and then Great Britain and France. Thus, the natural wealth of the New World served as a source for the primary formation of capital in the West European countries where capitalism was gaining momentum demanding more and more resources from the outside.

Quite another fate awaited those nations in the New World which were conquered by the developed West European countries with the dominating capitalist economies (Great Britain and France). For example, two types of production systems were introduced in the North American colonies. In the south, the colonisers set up plantations for growing cotton, sugar cane and tobacco to be exported as raw materials for the processing industries in the metropolitan countries. The main labour force on those plantations was slaves brought from Africa.

In the north, preference was given to farms. Immigrants, forced out from Western Europe with the onslaught of capitalism, found in those colonies much more prospects for the economic buildup, than back at home, where the survivals of feudalism were still present. What impeded the development of colonies most of all was their political dependence on the metropolitan countries. The colonies had to pay extremely high taxes to the crown and they were denied the right of free enterprise. The colonies were not allowed to develop major types of industries and to bring in the latest technologies and most of the means of production. Only after the colonies won their political independence and sovereignty could they develop at a faster rate and ultimately turn into leading capitalist countries, leaving their former mother countries behind.

The economic development of colonies had dramatic consequences for the indigenous population of North America. Comprising different ethnic groups leading their own way of life, nearly all the population was ousted from its land and, finally, exterminated. It follows that today's technologically advanced civilisations, which emerged out of the former colonies, are responsible for

the lives of millions of aborigines, let alone millions black slaves from Africa.

The New World itself is now divided into the rich (the USA and Canada) and the poor (in Central and South America and in the Caribbean) countries. In the Caribbean group, Cuba has chosen a socialist way of development and belongs to the community of socialist countries in which there is no division into the rich and the poor countries (the fact we have mentioned earlier), although it embraces the countries with different levels of economic development.

Some of the developed Latin American countries (Brazil, Argentina and Mexico) are catching up, in terms of certain economic indicators, with Greece and Portugal which are referred to as rich capitalist nations. That means that there are no strict distinctions between the rich and the poor countries and that there are also intermediate countries. But this does not in the least mean that there are no differences between these two groups within the capitalist world economy.

## 3. The Plunder of Africa

The colonisation of Africa by Europeans, which started with Portugal's colonial expeditions along the western coast of the continent in the late 15th century, lasted more than 400 years. During that period, capitalism in Europe went through different stages, adding new elements to the exploitation of African resources.

At the first stage, the Portuguese colonialists exported slaves only to Portugal, but later slave-trade was extended to the colonies of the New World. Colonialists resorted to all possible means to fill in the holds of the ships with the 'live-stock'. They would attack African villages by surprise and enslave their inhabitants killing those who resisted and burning down the villages. The whole regions went to ruin. The colonialists would also use alcohol to stupefy the Africans, unaware of the treacherous beverage, and drive them away from their native land forever. The slave-traders sought to involve some of the tribal

chiefs and rulers of this or that territory in this inhuman business. The bribed mediators made raids deep into the country, replenishing the slave market with their compatriots from the hinterland.

The colonialists devastated Africa, depriving it of the main force that stimulates progress—people. Such was the high price Africa paid for the setting up of plantations in the New World. With the crude methods employed by slave-traders human losses were monstrously high. Many people perished in the raids of African villages, and only one out of every four slaves managed to survive the long voyage to plantations in the New World. According to contemporary estimates, during the whole period of slave-trade, the total number of slaves exported from Africa amounted to no less than 100 million. To compare, the population of the 18th-century Britain totalled only about five million.

The Portuguese slave-traders were later joined by the Spanish, British, French and some others. For instance, late in the 18th century, the merchants of Liverpool alone had 132 ships for that business. Africa was by force involved in the European process of the primary formation of capital which brought it only losses in people and material wealth. Whereas the European countries profited in two ways. First, sending off slave-traders on expeditions to Africa, they earned large sums by exporting slaves and could use this money for their advanced economic development. Second, the products of slave labour on plantations ensured a rapid growth of European capitalist industry and trade.

The western African coast was the first to suffer from the European invasion. Then came the turn of the eastern coast where the Portuguese conquerors found flourishing cities with many-storied brick buildings and bustling ports. The standard of living and culture of African peoples on the eastern coast was by no means inferior to that of the Europeans' and even superior in many respects. These civilisations incurred irreparable losses from encountering the colonisers' first detachments.

With a rapid industrial buildup in Europe (first, in

Great Britain which for about a century played the role of 'the world's workshop', and later in other countries), colonialists turned their attention to Africa's natural wealth: fertile lands suitable for growing technical and other tropical crops, rare minerals (primarily non-ferrous metals, gold, diamonds and raw materials for chemical industries). With the division of the continent, its resources —African peoples' national property—were appropriated by Britain, France, Belgium and Portugal.

The economy of the whole continent was oriented to the metropolitan needs and included in the world capitalist economy system, although on a subordinate and unequal basis. The capitalist metropolitan countries sought to destroy the foundations of the subsistence economy in the colonies and to introduce the commodity-money relations. In implementing this they resorted to the most disgusting forms of violence.

The rudiments of the market economy and different types of money (gold dust, copper bars, shells, etc.) existed in Africa long before the colonisation, but they played a secondary role in the economic structure. They helped keep up the continuity of reproduction by purchasing the necessary goods which were not available inside the economic communities. The goods from the outside did not affect the traditional African economic structure, stagnant in nature but capable of maintaining the habitual way of life in numerous ethnic groups and tribes.

Colonialism brought about the development of the commodity-money relations in the African economy. They were not a natural process, a result of inner evolution, but were imposed from the outside, thus undermining the foundations of the subsistence economy.

The emergence of commodity-money relations of the colonial type did not stimulate the development of the elements of the relations which already existed in the African economy, but replaced them by the alien European types. The European currencies were introduced into circulation in the African colonies, plus the special 'colonial' currency was issued by the metropolitan banks which disregarded the real demands of the colonial economy.

The circulation of European currencies helped the colonisers easily appropriate the land which belonged to the Africans and to turn the latter, first, into leaseholders and then into wage workers.

Taxes introduced by the colonial administration (to be paid in the European currency only) ruined the traditional African household no less efficiently, if not the other way round, than fire and sword did in the time of slave traders.

The currency circulation in colonies was controlled by the metropolitan countries who used it as an instrument for carrying out a single economic policy which answered only their own interests and for robbing Africa of its natural wealth and people resources. Thus, the African peoples were deprived of any opportunity to develop their economies independently.

As a result of this colonial policy, the decaying traditional economic methods were not replaced there by more progressive forms which could have helped African nations overcome their backwardness. A specific colonial type of economy was established to be wholly oriented to metropolitan needs. It excluded any possibility of developing production to meet real needs of the African people.

The same as the slave-traders relied in their business on the mediators from among the Africans, so did the European colonialists of the later period, trying to find support in the mediators who took part in the exploitation of their own compatriots. As a result of colonialism, a parasitic layer of local comprador bourgeoisie came into being, which by no means encouraged the national economies, allowing the colonialists to plunder the national wealth of African colonies.

The colonial economy developed one-sidedly, giving preference to the industries working for the mother country and neglecting those catering for local needs. There were practically no industries that could ensure independent development and help to overcome backwardness.

African colonies were also chief suppliers of 'cannon fodder' for the Europeans fighting with each other. Many Africans lost their lives in the battlefields of the First

World War, shedding their blood for the sake of their own exploiters.

Finally, the European colonialists artificially divided Africa, disregarding its geographic and ethnic borders and its economic structures, historically established in the pre-colonial period.

## 4. The Impoverishment of Asia

Situated in Asia were the countries with a large population, deep cultural traditions and a centralised state power. They offered especially strong resistance to the European colonialists, that is why the colonial rule in Asia was established much later than in America and Africa. Several Asian countries, first of all this concerns Japan, did not let the colonisers in their countries altogether. This is one of the reasons why Japan is so different from other Asian countries and is now among the leading capitalist nations.

The biggest and most typical Asian colony was India, whose conquest dates back to 1757, when the army of the British East India Company defeated the Bengal army in the battle of Plassey. At that time an industrial revolution began in Britain, when machines came to replace manual labour. This determined the forms of economic activity in British colonies, as distinct from the colonies of other countries, and the depth and the character of the consequences for India's post-colonial economic development.

In their long history, Asian peoples experienced a great deal of suffering caused by natural calamities (floods, earthquakes, draughts, etc.), famine, foreign invasions, internecine wars, the cruelty of local rulers and religious fanaticism. Before Asian countries became European colonies, all these calamities, no matter how grave they might be, affected the countries' social structures only superfluously. The British rule in Asian colonies wrecked the foundations of those societies.

From time immemorial, three main principles underlay the state systems in Asia: well-thought-out financial and taxation policies for exploiting ordinary people; a strict military organisation for plundering other nations and for

defending the power of the ruling classes inside; a complicated system of state-sponsored public works, primarily the construction and maintenance of irrigation systems. Artificial irrigation was a must in densely-populated countries for providing enough food for everyone.

In the occupied territories, the British colonialists took the tax-and-finance system in their hands to pump out the national wealth for the benefit of the ruling classes of Britain. They subjugated the native armies and made them serve their political interests. Actually, they destroyed the system of public works which meant to abandon the irrigation system.

They also introduced the European system of land ownership and destroyed the traditional village commune which determined the social and economic relations in the pre-colonial countryside. Many peasants lost their age-long sources of existence, and famine became a regular occurrence in Britain's Asian colonies.

At the same time, the colonialists set up vast plantations for growing export-oriented crops—these are cotton, tea and rubber-bearing plants.

British colonialists in every way possible encouraged Indian landlords, or zamindars, to ensure a social support in the countryside and hamper progressive tendencies in Indian agriculture. As a result of this economic policy Indian peasants were dispossessed of their land.

India and other British colonies were not only the suppliers of raw materials for British industries, but also the markets for the British goods. Indian small crafts both in urban and rural areas could not compete with rather cheap manufactured goods from Britain.

From time immemorial, Europe imported superb fabrics produced by Indian rural weavers. With the help of a distaff and a weaving loom they supplied with apparel all the rural population. The prospering British textile mills first ousted Indian cotton from the European market and then flooded India with their products. Over the period of less than 20 years, since 1818 to 1836, the export of British yarns to India increased 5,200 times. In 1824, India imported about 1,000,000 yards of muslin from Britain,

by 1837 the figure was as high as 64,000,000. Over the same period, the population of the Bengal town of Dacca, a chief colonial centre of textile industry, dropped from 150,000 to 20,000. Thus, the British colonial rule led to the decay of Indian cities.

The devastating colonial policy not only shattered the foundations of the Asian pre-colonial economy, it also brought along new types of economic relations which, in fact, only worsened the exploitation of the local population and intensified the plunder of natural resources.

With the advent of the industrial revolution (and the invention of the steam-engine), Britain began to employ new technology in its colonies. In order to increase the delivery of raw materials (primarily cotton) from India and to lower the cost of their transportation to the ports, the British colonialists initiated the construction of railways, brought in locomotives, carriages and other machinery, and opened a telegraph service. The introduction of steam-engines in railway transport and at industrial enterprises stimulated coal mining, which gave rise to new industries. Under these conditions new classes in colonial India came into being—the class of bourgeoisie and the class of wage workers, the latter was rapidly increasing in numbers. Indian aristocracy was increasingly drawn into the European culture graduating from British universities. English accepted as an official language made communiaction in the multilingual country easier.

So, the results of the British colonial rule in India were of two kinds: positive and negative. Yet both led to the impoverishment of the majority of the population and the enrichment of those who acted as mediators: local princes, governors, officials of the colonial administration, landlords, merchants and other representatives of the national bourgeoisie, the military and police chiefs. Owing to the imperial 'divide-and-rule' policy which added new antagonisms to Indian society, the British colonialists managed to preserve their domination in India with the help of the Indian army maintained by Indians themselves.

The colonial rule in Asia, as well as in other parts of the world, interrupted the natural course of social evolu-

tion, ruined their traditional economic structures and deprived the whole nations of political independence. At the same time, new conditions were created under which the colonies were linked to the rapidly developing capitalist countries of Western Europe, yet prevented them from that development process. Colonialism brought a lot of suffering to many Asian, African and American peoples, hindered their economic development, rendering them backward, and led to the division of the capitalist world into rich and poor countries.

The only transforming role of colonialism which shook the foundations of traditional societies in the conquered lands, was at best in creating preconditions for overcoming backwardness in the future, provided that colonies gained political and economic independence. Actually colonialism intensified that backwardness during the centuries of its rule.

Backwardness is a relative conception. It is determined by both the level of the industrial development in the poor countries and by the rate of economic advance of the rich ones. The economic gap between the poor and the rich countries, that is the poor countries' relative backwardness, will keep broadening, even if the productive forces in the former colonies continue to grow, since their economies will remain geared to the interests of the richer countries. The colonial system laid the basis for exactly this type of international economic relations.

## 5. The System of Colonial Exploitation

Colonialism did not only deform the economic structure of the enslaved countries, breaking up its natural evolution and subjugating it to the needs of capitalist development in the metropolitan countries. It also created an acting mechanism of transferring the surplus product produced in the colonies to the metropolitan countries. This resulted in the growth of the accumulation funds in Europe and their subsequent reduction in Asia, Africa and Latin America.

This intervention of colonialists shook the colonial socie-

ties to the bottom and determined their future development. The political domination of alien conquerors laid down the basis for the colonies' economic backwardness and the division of the world into rich and poor countries.

In pre-colonial times the working people (peasants and craftsmen) were subjects to the exploitation only by their own ruling classes. When colonialists arrived, the exploitation was stepped up with the introduction of new economic methods which were very cruel and inhuman and sometimes even claimed human lives. Colonialists forced the local people to be uncaring towards their natural wealth: the extracted natural resources were not utilised inside the colonies, but were taken away to the metropolitan countries, without any equal compensation.

Relations between the colonies and the metropolitan countries were characterised by the one-way flow of wealth: the cost of commodities supplied by colonies always exceeded the cost of goods moving in the opposite direction.

The most important result of colonialism for the economic development of the overseas European colonies, which still determines many elements of the economic situation in modern poor countries, was the forced involvement of the previously self-reliant and economically independent countries into international trade. This was imposed on the colonies contrary to the needs of their development and carried through under the terms unacceptable for them. Colonialism helped the emerging European bourgeoisie in the rapid formation of the world capitalist market which was essential for a successful industrial revolution and the subsequent industrialisation of Western Europe. There are strong and profound inner ties between colonialism and the forced involvement of the conquered lands into international economic relations, on the one hand, and the acceleration of Europe's economic development, the emergence of mechanised production (at factories and plants) and capitalist industrialisation, on the other.

Industrialisation began when the first machinery was invented and introduced into the British textile industry. But the emergence of textile mills on the British Isles would

have been out of the question without large-scale and regular deliveries of cotton and without the market ready to absorb their products. Britain had none of the above conditions. It grew no cotton and its population was too poor and few in number to guarantee an effective demand for textiles. The colonies supplied textile mills with cotton and mills exported the bulk of their products to the colonies. Thus the colonies situated on different continents were involved in the single economic system centering around the capitalist industry of the metropolitan countries. This helped the emergence of the global system of economic relations where the place of every colony was predetermined by the interests of the metropolitan countries.

The so-called Black Triangle which stretched all across the Atlantic served as a basis for this global system. Early in the 18th century, Western Europe and, primarily, British sea-ports were the apex of the Black Triangle. Merchant ships carrying loads of cheap manufactured goods, rum and low-quality foodstuffs and with teams of armed slave-traders on board would sail off from, let us say, Liverpool and head for the south to the shores of Africa. After receiving there a batch of black slaves in exchange for the European goods, they would sail west heading for America. American colonialists would buy the slaves paying with gold, cotton, sugar, tobacco and other colonial goods. To make the Black Triangle complete, the ships would travel back to the ports where they started their long and daring voyage, carrying sugar for producing rum, cotton for textile mills, and gold for new investments in industry. The Black Triangle supply system operated uninterruptedly for as long as it was necessary for the primary formation of capital.

With the growth of Britain's industry new links appeared within the Black Triangle, drawing in the integrated system of colonial exploitation new peoples living far away from the Atlantic, primarily in the Hindustan subcontinent. British ships laden with fabrics sailed around the southern extremity of Africa and then headed for Asia.

The influx of fabrics, as we mentioned earlier, impove-

rished Indian weavers, while British manufacturers derived from this high profits. On the homeward voyage the ships would carry a big variety of goods, including agricultural produce to be used as raw materials.

Step by step, Africa, India and European colonies in America found themselves tied together by European colonialists who made fortunes on this system. Ultimately, Indian weavers themselves experienced the tragic results of the merciless exploitation of African slaves torn away from their native lands and brought to America to work on plantations.

The consequences of the great migration of peoples from colonies forcefully effected by colonialists even today continue to aggravate the economic and socio-political situation in many of the poor countries. A sizeable group of people of Indian extraction, whose predecessors had been imported by British manufacturers as low-paid manpower to Ceylon (the Tamil population of Sri Lanka), Africa and the British colonies in West Indies (Guiana and some other countries), found themselves in a new environment of complex inter-ethnic relations. This brought the poor countries, striving to overcome the burden of the colonial past, face-to-face with an additional and complicated set of problems.

By virtue of the specific colonial character of the involvement of Asian, African and Latin American colonies into the world economic system, they were connected with each other only through the metropolitan countries, while remaining artificially isolated. Adjacent colonies, very often populated with the same national and ethnic groups and formerly parts of the same communities, would partition themselves off from each other in case they happened to belong to different colonial empires.

One can hardly assess in full the economic damage colonialism caused to Asia, Africa and Latin America. But the estimates available to us show that its dimensions were immense. As early as 1901, the British scholar William Digby published a book in which he wrote that between 1757 and 1815, i.e. an important period in the history of the British capitalist economic development, Britain received

from 500,000,000 to 1,000,000,000 pounds' worth of goods from India and never paid back.[1] Only one figure will suffice to explain how much it was: by the end of the 19th century India's joint-stock companies had in assets as little as £36 mln. According to some estimates, at the turn of the 20th century Britain appropriated, in one form or another, about 10 per cent of India's national income, taking the lion's share of the surplus product that could otherwise have gone to the accumulation funds of this British colony.

That ratio referred merely to direct transfers and did not include India's losses due to unfavourable terms of trade imposed upon her by the British.[2]

In his fundamental *Economic History of India*, Romesh Dutt, once a high-ranking official of the British Administration in India, wrote: '...In many ways, the sources of national wealth in India have been narrowed under British rule. India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the products of the Indian loom supplied the markets of Asia and of Europe. It is, unfortunately, true that the East Indian Company and the British Parliament, following the selfish commercial policy of a hundred years ago, discouraged Indian manufacturers in the early years of British rule in order to encourage the rising manufactures of England. Their fixed policy, pursued during the last decades of the eighteenth century and the first decades of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw produce only, in order to supply material for the looms and manufacturies of Great Britain. This policy was pursued with unwavering resolution and with fatal success; orders were sent out to force Indian artisans to work in the Company's factories; commercial residents were legally vested with extensive powers overs villages and communities of Indian weavers; prohibitive tariffs excluded Indian silk and cotton goods from England; English goods were admitted into India free of duty or on payment of a nominal duty... The invention of the power-loom in Europe completed the decline of the Indian industries; and

when in recent years the power-loom was set up in India, England once more acted towards India with unfair jealousy. An excise duty has been imposed on the production of cotton fabrics in India . . . which stifles the mew steam-mills of India.

'Agriculture is now virtually the only remaining source of national wealth in India. . .

'But what the British Government does take as Land Tax at the present day sometimes approximates to the whole of the economic rent. . .

'This uncertainty of the Land Tax paralyses agriculture, prevents saving, and keeps the tiller of the soil in a state of poverty and indebtedness. . . In India the State virtually interferes with the accumulation of wealth from the soil, intercepts the incomes and gains of the tillers . . . leaving the cultivators permanently poor. . .

'In India, the State has fostered no new industries and revived no old industries for the people. . .

'In one shape or another all that could be raised in India by an excessive taxation flowed to Europe, after paying for a starved administration.

'Verily the moisture of India blesses and fertilises other lands.[3]

In India, like in other colonies, the British administration, similar to other colonial administrations, did everything to destroy the foundations and the fibre of Indian society. Land and tax policies of colonialists were detrimental to Indian agriculture and created the parasitising classes of landlords and money-lenders. Their trade policy eliminated India's traditional handicraft and brought about slums in Indian towns overcrowded with millions of jobless, hungry and ailing paupers. Their economic policy nipped Indian economy in the bud, contributed to the emergence of hordes of black-marketeers, petty go-betweens and other swindlers who made their living by all sorts of parasitic activity, never producing anything and stripping the working people of whatever little they possessed.

National wealth in any material form—from gold to precious stones, from works of art dating back to the great

civilisations of the past to raw materials for industrial production and exotic oriental handicraft—travelled through the channels of colonial exploitation from the far-off parts of the British, French and other empires to be concentrated inside a relatively small territory of capitalist countries.

The redistribution of resources within the world capitalist economy to the detriment of one set of countries and for the benefit of the other was not so much determined by the form of political dependence imposed on them, as by the nature of economic relations that had taken shape in the world. Many countries that had gained their political independence (the way some countries in Latin America did early in the 19th century) found themselves dependent economically on the former mother countries, open to the capitalist activities of foreign firms. Subject to a typically colonial exploitation, they were in fact regarded as colonies or semi-colonies.

The experience of economic development of these countries, after they broke free from their colonial bondage, proves that the origin of their economic backwardness can be traced back to the times of colonialism. The key indicators of this development show that their political liberation became a watershed between the period of economic stagnation and the period of drastic acceleration of their development, which to a great extent depends on how long each particular country was under the colonial rule and how deeply it affected the country's economy.

The present-day poor countries still carry on the burden of their colonial past. The grim legacy of that past is difficult to overcome, for it determines, in many respects, the specific features of the socio-economic structure of the developing world, which are quite different from that existing in the rich countries. The colonial past has shaped up the mechanism for generating backwardness in the poor states which is still acting as an important inner factor for holding back their development and preventing those countries from overcoming their backwardness.

*Questions for Self-examination*

—When did the first European colonies appear?

—How did the colonialists affect the New World civilisations?

— What were the forms of the Europeans' economic activity in Africa?

—How did the system of colonial exploitation evolve?

—What role did the colonies play in the industrial revolution of 1750s-1850s in Britain?

—How did the Black Triangle operate?

—Was colonisation historically necessary?

*Topics for Discussion*

—The historic role of colonialism.

—The formation of the world capitalist economy.

—Contradictions between the colonies and the metropolitan countries.

CHAPTER 3

# Internal Factors of Economic Progress

Despite the internationalisation of the world economy through the growing involvement of all nations in the system of world economic relations, it is the internal factors contributing to or holding back a country's economic progress that play the decisive role in its economic development. The character of the internal economic structure determines both the nature of the country's participation in international exchange and opportunities for the effective utilisation of the results of this participation for the benefit of its own development. In the final analysis, it is the internal factors that determine the country's absorptive capacity, that is, the financial and material resources—no matter whether they are created nationally or imported—that can be used in this country over a year.[1]

The restrictive effect of low absorptive capacity on economic development manifested itself most vividly in developing oil-exporting countries in the late 1970's when due to the increase in oil sales on the world market and an abrupt rise in oil prices they became recipients of huge sums of money. A productive utilisation of these funds could have enabled them to solve all their social and economic problems, passing over from the category of poor countries to the category of rich ones, that is, to the developed world. However, they proved unable to fully utilise these funds, transferring sizeable portions of them to Western banks or spending them on securities or land acquired abroad.

The internal factors of economic progress that determine,

among other things, the country's absorptive capacity, operate as a result of the functioning of the socio-economic structure embracing such major components as the system of productive forces, the totality of social and economic relations and the state system.

## 1. The System of Productive Forces

The totality of material and human factors which interact to produce material and cultural benefits or services required by society are termed productive forces. The productive forces comprise the means of production, first and foremost, the instruments of labour, that is, all kinds of tools and implements, from primitive hand ones, such as hoes, spades and hammers, to sophisticated mechanical and automatic ones, such as computerised machine-tools, robots, nuclear reactors, the equipment of modern petrochemical industries, plus the people who, through their work and skills, put the means of production into operation.

The entire history of human civilisation can be seen as the development of society's productive forces. Originally slow and then gradually accelerating, it eventually took on the form of the present-day scientific and technological revolution.

What is meant by the scientific and technological revolution is a radical qualitative transformation of the productive forces on the basis of the conversion of science into the main factor in the development of social production, the process that started in the middle of this century. The main areas of the scientific and technological revolution are as follows: comprehensive automation of production, control and management through a large-scale application of computers; the use of new types of energy, above all, atomic energy; the development of new types of construction materials; the setting up of biological industries and comprehensive utilisation of the latest achievements of science and technology in various spheres of the economy and every-day life. Among the components of the scientific and technological revolution is the so-called green revolution

that made for a rapid and tangible improvement in grain harvests and a rise in grain production in many developing countries.

People's efforts to enhance their labour productivity, increase production and, consequently, consumption, and to lower production costs stimulates the development of the productive forces. These efforts are promoted by competition in the course of which low-performance producers may be ousted from the scene altogether while high-performance ones gain higher incomes and expand their businesses.

Labour productivity depends on three main factors: technology; the quality of the personnel and organisation of production; natural conditions (especially in agriculture and mining). At each development stage higher labour productivity is registered wherever these three factors combine to affect production in the most positive way. Today, rich and poor countries greatly differ from one another in terms of labour productivity. On the whole, in rich countries it is much higher than in poor ones. Only those poor countries where natural factors decisively contribute to production—in tropical agriculture or the mining of exceptionally rich and conveniently located deposits—may register high labour productivity.

In the United States, agricultural production is ensured by a mere two per cent of the nation's labour force, whereas in some of the least developed countries it absorbs up to 90 per cent of labour. The United States exports a considerable part of its farm produce, while the least developed countries import large amounts of foodstuffs. In US agriculture labour productivity is 100 to 150 times that of the most backward countries of Africa. High labour productivity in the agriculture of the United States and other rich countries is accounted for by the combination of favourable natural conditions and the application of modern agrarian science, technology and expertise.

Technological progress and growing labour productivity are ensured by the constantly expanding social division of labour, that is, the specialisation of production. This explains why technological progress is practically im-

possible in subsistence economies and why they stagnate at the same technological level over long periods of time.

It is due to the peculiarities in its historical development that Western Europe became the scene of the first slow and then gradually accelerating process whereby labour was divided both among individual producers (social division of labour) and within major capitalist enterprises that at the early stages used manual labour and were known as manufactories (technological division of labour). The growing technological division of labour turned the complicated process of manufacturing goods into a succession of primitive operations that could be performed by simple machines. Instead of using hand tools, workers operated machines and thus increased their labour productivity many times over. In the mid-18th century England was the first West European country to start replacing manual labour with machine operations and thus launch what is known as industrialisation. Some developing countries did not initiate industrialisation until after the Second World War.

This explains the considerable difference between rich and poor countries in terms of their productive forces' development level. In rich countries, the system of productive forces is based on modern, highly productive technology, the application of the latest achievements of science, a regular renewal of plant and the development of ever new science-intensive industries.

Poor countries have heterogeneous systems of productive forces, simultaneously relying on technologies of different periods, from the primitive, hand implements of labour (hoes, wooden plough, hammers) to sophisticated machines and computers and science-intensive technologies. Since the majority of workers use hand tools, their skills and labour productivity are far below the world standards and performance registered in rich countries.

The high potential of the productive forces is a most important factor in economic progress. It makes it possible to adapt the economy to the changing internal and external conditions in a quick and adequate way and makes for the

successful solution of many outstanding problems. By contrast, the motley system of productive forces relying on the wide use of archaic manual implements and lacking skilled labour and technical expertise holds back economic progress and prevents poor countries from solving the tasks of their economic development.

## 2. Socio-Economic Structure

Production is geared to consumption, that is, it is intended to meet social needs. What is described as social needs is the totality of needs experienced by the society at a certain stage of its development, including the needs of individual people and families as members of society, of groups of people and social strata, of local communities, national organisations, industrial enterprises and the nation as a whole.

Between production and consumption there are two other stages of the economic process: distribution and exchange. These components are not present in the small-scale, primitive subsistence economies where all that is produced is consumed locally, by the production unit itself. However, in those subsistence economies where part of the output is consumed beyond the limits of the production unit there emerge distribution relations.

Thus, the full formula of the production process in a broad sense of the word, that is, seen as a totality of all economic activities in the country, incorporates four components: production—distribution—exchange—consumption.

Within the first component (*production*), the participating productive forces are organised in different ways. Organisational forms match the character of the productive forces and are thus determined by them.

Household production is one of the oldest organisational forms. It involves the means of production which can be used by a person or a small group of persons. The implements of labour here can vary from primitive manual ones to sophisticated expensive computer-operated machinery or intermediate types of equipment. Labour productivity un-

der various types of household production varies accordingly.

The degree of their dependence on the market also varies. The outcome of household production can be either intended for internal consumption (subsistence production); part of it can be earmarked for sale (semi-commodity production), or the whole of it can be meant for sale (commodity production). As a rule, household production that involves primitive manual implements and registers low labour productivity is either subsistence or semi-commodity production. Household production relying on sophisticated modern highly productive technology cannot be other than commodity production.

Today, household production is widespread, though in different forms, in both rich and poor countries.

The rich countries' production potential is mostly created by the types of production other than household. Both in terms of the number of people involved and especially in terms of its share in the Gross Domestic Product, it has a very modest role to play. By contrast, in poor countries it predominates and usually involves the majority of the economically active population.

In rich countries it is mainly found in agriculture and the services (especially the repair business and small trade) and is practically non-existent in manufacturing industry (that is, in what forms the basis of the national economy). In poor countries it can be found everywhere. It dominates agriculture, plays an important role in manufacturing industry (small-scale industries) and prevails in the services.

In rich countries it usually relies on modern technology and in poor ones, mostly on manual implements.

In developing countries the widespread types of household production check, rather than contribute to, economic progress because it is mostly subsistence or semi-commodity production at low-productivity enterprises using primitive manual technology.

For all that, in developing countries this type of production has an extremely important role to play and is therefore often supported by the state and local government

bodies. It accounts for a weighty share of the GDP, mainly in the form of mass consumption goods. It also provides most of the jobs, which is particularly important in the context of massive and constantly growing full and partial unemployment.

The dual role played by household production in developing countries both as a socially necessary area of their economy and as a factor maintaining backwardness accounts for the complexity of the task of accelerating economic development and explains the emergence of additional social conflicts.

At the same time household production is permeated by internal contradictions that contribute to its extreme instability. It suffers from the increasingly destructive impact of such external factors as other forms of the organisation of productive forces. Subsistence economies gradually get involved in market relations, turning into semi-commodity production. The commodisation of small-scale trades grows, and commodity production is affected by market forces. More often than not it develops, due to its intrinsic laws of development, into private capitalist entrepreneurship. Most small businesses go bankrupt and leave the economic scene, giving up their place to the expanding capitalist economies.

In modern conditions obtaining in developing countries, small-scale production suffers from the growing competition on the part of large-scale production both internally and abroad which penetrates those areas of activity where, in colonial times, small-scale production reigned supreme.

The economic system grounded on small-scale household production is determined by whether or not the producer owns the means of production, and if he does, whether or not he or his family are involved in the work. In developing countries most of the small producers, including small-scale commodity producers, are both the owners of the means of production and workers. Their position as a social group explains their affiliation with a special class, referred to as the petty bourgeoisie. Classed with the petty bourgeoisie are also those peasants who own their farms and work on them without earning any wages or paying them to any one

else, as well as independent artisans in urban and rural areas, small traders and all other small owners who work by themselves or together with the members of their families, running their own businesses in various spheres of the economy.

Typical of the petty bourgeoisie is simple reproduction the output of which consists almost entirely of the necessary product. Almost the whole of the surplus product that results from it goes to the state in the form of tax; part of it may take on the form of land rent (the farmers' payment for the use of land leased from the landowner, or artisan's payment for the premises he rents from the proprietor to use as a workshop, or the small trader's payment for the rental of the premises that house his shop), as well as the interest on the loans received from banks or usurers.

Large-scale production involving the use of highly productive capital-intensive sophisticated equipment is the predominant form of the organisation of the modern productive forces. This production which forms the basis of the developed economies is represented by various social and economic types of enterprises. The type that prevails in the West is private capitalist entrepreneurship under which large enterprises are owned either by individual owners or a small number of partners of joint-stock companies owned by those who invest in them to become shareholders. A small number of enterprises incorporated in the public sector belong to the state. In the socialist countries, large-scale production is mostly run by state-owned enterprises, and a limited number of them are run by workers' cooperative societies.

In the developing countries, large-scale production, which is a considerably small part of their economy as compared with the developed capitalist and socialist countries, is highly varied and represents enterprises owned by individual entrepreneurs (i.e., local bourgeoisie), either personally or jointly, sometimes, in the form of joint-stock companies; enterprises owned by public corporations; enterprises owned by foreign capitalists or combined societies represented by private (national or foreign) capital and the state.

This complexity of the socio-economic structure of large-scale production in developing countries results in the controversial nature of its contribution to economic progress.

The second domain (*distribution*) is the one accounting for the formation of the major part of the income of various participants in social production, i.e. economic activity, and for the share of the Gross National Product which comes from each of them. Since the character and size of the income largely determines the character of the utilisation of the product, distribution is an important domain on whose functioning the given country's economic progress or growing backwardness depend.

Landowners get their income in the form of rent. Rent is part of the surplus product created within the given society and appropriated by landowners without their participation in the process of production, only under the right of possession. The rent mainly goes for the land-owners' consumption and therefore does not contribute to the development of production. The larger is the portion of rent in the surplus product, the more society is susceptible to stagnation and the weaker its economic progress.

The income of capitalist entrepreneurs takes on the form of profit that comes from the surplus product created by workers. Part of the profit goes for the capitalists' consumption and the rest goes to the expansion of production, i.e. accumulation. The scope of accumulation and the effectiveness of the utilisation of the funds accounting for accumulation largely determine economic progress.

The profit harvested by capitalist entrepreneurs is one of the sources of the accumulation funds formed also by the incomes of other sections of the population, funds at the disposal of individual enterprises and institutions, including the state, and the funds that come from without to finance economic development. However, in modern society accumulation mainly depends on the surplus product appropriated by capitalist entrepreneurs. The rich and poor countries also differ from one another in terms of the rate of profit (the surplus-to-invested capital ratio), in terms of the share of the profit that goes to the entrepreneurs'

personal income and the share that goes to accumulation, as well as in terms of the utilisation of the accumulated part of profit. This difference accounts, among other things, for the difference in the industrial development and economic progress level of various countries.

Those engaged in modern industries get their income in the form of wages (hired workers at private, state-owned and joint enterprises) and salaries (clerical workers in various areas including the social sphere and the state apparatus). Wages and salaries are mostly spent on consumption; only a relatively small part forms the savings and winds up in the national accumulation fund.

To a certain extent, economic progress is determined by the size and dynamics of the income of the workers in modern branches of the economy. It also largely depends on the ways of their utilisation.

Also typical of the developing countries is a far lower level of wages and salaries as compared with the rich countries. Besides, characteristic of the developing countries is a big gap between the income of the hired workers at the lower stages of the social hierarchy and those at the top.

The negative effect of these factors on economic progress mainly manifests itself in the following two ways. First, law wages and salaries of white-collar and blue-collar workers, including professionals and technicians holds back the development and improvement of society's most important productive force, labour. The size of wages and salaries determines the physical state of workers, their health, morale, which in the final account, tells on their ability to work, and the effectiveness of their labour. It also determines the possibility for the workers to improve their skills, achieve a higher cultural level and contribute to economic progress. The system whereby wages and salaries are organised determine the impact of material incentives stimulating the workers to show better performance, creative initiative and willingness to use more rational methods of work.

Second, the large gap between income levels accounts for the structure of solvent demand that in developing countries fails to stimulate the development of industries

manufacturing the modern consumer goods and leads to the inordinate growth in the import of consumer goods from the rich countries.

In developing countries, the upper crust, including high-income, high-ranking white-collar workers, tend to transfer their savings, both through legal and illegal channels, to rich Western countries, depositing them on bank accounts or acquiring government bonds and corporate securities there.

In the third area (*exchange*), products travel from the place of production to the place of consumption; the funds supporting commodity exchange and used for various kinds of payment move likewise. In the course of exchange the income of the participants in economic life is partially redistributed. The contradictions and difficulties arising in this area exert serious influence on production in a capitalist society—failures in the sales of products bring about economic crises, hold back the growth of production or impose restrictions on it.

In rich countries practically the whole of the output is involved in exchange, whereas in developing countries only part of the product, namely, what is produced in the framework of subsistence economy or consumed locally in the framework of semi-commodity economy does not become involved in exchange.

The peculiarities of exchange influence the country's economic progress. Of importance here are the ways of the formation of prices of goods and services, the character of the turnover of money and the degree of correspondence between the production structures and solvent demand.

Exchange is maintained by special enterprises and institutions (trade outlets, banks), as well as transportation and communication systems. This infrastructure is also a substantial factor of economic progress. The developed Western countries dispose of ramified transportation networks relying on top-performance modern facilities (railways, highways, airlines, pipelines, etc.) ensuring the smooth functioning of all units of the economy and the prompt and minimum-loss deliveries.

In developing countries, the inadequacy of the transpor-

tation network is a factor hampering economic progress and impeding the solution of social problems. For example, the lack of good roads and transportation means, a shortage of well-equipped warehouses (including those provided with refrigerators) cause great losses in farm produce and foodstuffs essential to the population, part of which suffers from malnutrition.

The well-developed credit system with a network of banks and their departments in Western countries provides for the prompt mobilisation of financial resources needed to set up or expand the industries requiring priority attention at a given time. On the contrary, the usurers' operations in developing countries hold back economic progress and thus run counter to the principles of social justice and deprive the nation's economy of a possibility to mobilise funds essential to economic development.

In their drive for quick enrichment, the mediators who are often involved in exchange tend to abuse their position. This, too, has a negative effect on national economic development.

The fourth area (*consumption*) concludes the entire process. What has been produced (minus the losses suffered in the period between production and consumption) is consumed. From the viewpoint of the relation between consumption and economic progress the consumption is divided into industrial and personal, with military consumption playing a special part.

Personal consumption covers everything used to sustain the life of the population and satisfy its material and spiritual requirements.

In terms of the per capita consumption of basic goods and services, developing countries on the whole lag behind the developed ones. A large percentage of their population suffers from poverty, undernourishment and lack of access to medical care and education. An abrupt rise in personal consumption seems to be imperative for them. In each country, various social groups register substantially different per capita consumption. Starvation and poverty exist side by side with luxury and over-indulgence.

Unequal consumption is observed in developed capital-

ist countries as well. Even the richest countries have great numbers of homeless, poor, hungry people whose level of consumption is far below modern requirements.

Consumption and production are interdependent. Production creates the consumer. For its part, consumption influences production, either stimulating or restricting it. The contradiction between production and consumption manifests itself in the fact that what is produced is not totally consumed and what is required is not totally provided. In developing countries the contradiction between production and consumption is especially acute. Whereas consumption is increasingly oriented to Western standards, production, no matter how hard it tries to adjust itself to consumer demand, increasingly fails to match the standards. This leads to the growing import of consumer goods from Western countries while the national production capacities remain largely unused. In these conditions the contradiction between production and consumption, which usually stimulates economic progress, has the contrary effect—it hampers development.

Industrial consumption is the use of part of the product (in the form of the means of production) for the manufacture of consumer goods or providing services. This process implies the consumption of raw materials, fuel, energy, machinery and plant, construction materials, as well as freight traffic and other services. Industrial consumption ensures the processes of production and therefore provides for personal consumption. That is why these two types of consumption are linked not only to production but also to each other.

Military consumption implies net deduction from the national social product. Weapons and military materiel cannot satisfy people's requirements, neither can they be used as the means of production. The larger share of the product takes on the form of weapons, the greater the barriers blocking economic progress. For economic and social consequences of the militarisation of production see Chapter 11.

The part of the Gross Domestic Product that remains after the means of production consumed in the process of

its production have been compensated for forms the country's national income. National income is used for consumption and accumulation. Economic progress depends, first, on the size of national income and, second, on the consumption funds-to-accumulation funds ratio. The share of national income that accounts for accumulation is referred to as the accumulation rate. The higher the accumulation rate, the faster the development of the economy, the more intensive economic progress.

Over the years of their independent development, all the developing countries registered a rise in the accumulation rate. At present, the accumulation rate (although it differs from country to country) is roughly equal to that in the developed countries.

However, a rise in the accumulation rate inevitably limits the part of national income reserved for consumption. In the developing countries where the level of consumption is very low as it is and where it is essential to heighten the living standards and the cultural level of the population, simultaneous efforts have to be made to increase both consumption and accumulation. Their per capita production being limited, this task seems to be insoluble. At each development stage priorities should be set and the best correlation between consumption and accumulation funds should be specified. The tragic need for channelling part of national income to defence purposes restricts consumption and accumulation funds even further.

In order to increase accumulation funds, it is essential to limit, first of all, the inordinate consumption by the privileged sections of the population.

While the rise in the consumption of the population in general limits the possibility for an immediate increase in accumulation, it stimulates the expansion of production because it also reflects the increasing social need for its results. At the same time, its growth is limited by the accumulation rate growing due to the corresponding decline in the share of national income used for consumption. However, through ensuring an increase in the overall size of domestic product, national income included, the rising ac-

cumulation rate permits to increase consumption in the long run.

### 3. The Sectoral Structure of the Economy

The two types of consumption—personal and industrial consumption—are matched by the division of social consumption into two main sections, the production of the means of production and the production of consumer goods. Military production takes up a special place in the economic structure (for more detail see Chapter 11).

There exist close economic ties between these two sectors. They can only develop smoothly, provided the correspondence between the interdependent areas is strictly observed: the sector that produces the means of production secures them not only for itself but also for the sector that produces consumer goods. For its part, the latter sector provides them both to the people involved in it and to those involved in the production of the means of production.

Social production is divided into two sectors not only according to the orientation of industries, but also according to the interconnection between them. Certain products could both serve as the means of production and as consumer goods. For instance, sugar is both an article of consumption and raw material used in various industries.

In terms of their sectoral structure, the economies of the poor and rich countries considerably differ from one another. In almost all developing countries agriculture and mining account for a far greater share of the GDP and people employed than is the case in developed countries. Consequently, manufacturing industries, dominated by the food and light industries, account for a far smaller share of the GDP. Only a few poor countries dispose of heavy industry manufacturing simple types of metal products, machines and equipment.

Industry, especially its modern, science-intensive branches, which are non-existent or only emerging in developing countries, is the main stimulus of economic progress. In developing countries, a considerable number of enter-

prises in modern industries are in the hands of foreign capital and represent only part of the rich countries' production potential stationed on the poor countries' territory.

At the present development level of the world productive forces, when the regularly renewed list of products contains tens of millions of items, no country, not even the biggest and most developed one, can have all types of modern production on its own territory. The smaller the country, the fewer industries it has and the fewer items it produces nationally. Its economic progress is ensured by its industrial and economic cooperation with other countries and by the correspondence of national production to the scientific, technological and quality standards accepted in the advanced countries.

A national economy is a totality of various branches organised in a single economic mechanism. Essential to it are the internal ties ensuring a high degree of the integration of each industry and each production unit within an industry in the overall national production system. The higher the degree of integration, the more favourable are the conditions ensuring economic progress. As a rule, the degree of the internal integration of the national economy of developing countries is far below that of the developed ones. The integration is hampered, above all, by the co-existence and functioning of the two qualitatively different (both in terms of their type and development level) sectors of the economy—the modern and the traditional sectors featuring complex and ambiguous interrelationships. Since in a developing society each of them performs its own social function, it is essential to fit them together in such a way that the traditional sector (which is bound to persist in the forseeable future) could realise its potentialities as the factors of social progress, assisting in the mobilisation of resources for the programmes designed to overcome the poor countries' backwardness.

The backwardness of the sectoral structure of developing economies that lack integration and are divided into modern and traditional sectors is enhanced by the co-existence of many types of economic forms typical of various

historical periods. This phenomenon is usually described as the multiplicity of economy. Primitive, small-scale subsistence economies and tribal ways of life persist in the countries swept by the rapid development of production oriented to specific commodities. Operative in these countries are large capitalist enterprises, some of them monopoly-owned, as well as the affiliates of major world corporations. Their public sector is expanding. Each of these economic structures has various potentialities as regards promoting economic progress and assimilating its results.

The specific nature of demographic processes that have taken on the form of a 'demographic explosion' affects the course of economic progress in developing countries. While their average annual rate of population growth exceeds 2 per cent (in some of them—3 per cent), in the developed countries it has stabilised at the level of 0.7 per cent. The birth rate in the developing countries runs to an average of 42 to 48 new-borns per 1,000 people as against 14 per 1,000 in the developed countries.

In developing countries the demographic explosion reflects a rapid and substantial decrease in the rate of mortality unmatched by a corresponding decline in birth rates. It also mirrors the peculiar combination of progress and backwardness. The decrease in mortality rates has been achieved through the spread of the various medical and sanitation means that contributed to a lower rate of infant mortality, especially of neo-natal mortality, and through the effective control of infectious deseases and prevention of epidemics. Higher agricultural development rates and a better food supply supported by the introduction of modern agricultural technology accounts for a rapid and substantial increase in life expectancy. Over a 15-year period some of the developing countries registered a decrease in mortality rate that in European countries could only have occurred within 100 to 150 years. As for the high birth rates, they can only be explained by the developing countries' backwardness, low living standards, outdated employment structure, low educational and cultural levels, inequality of women and their limited participation in social production, persisting and powerful religious, patriar-

chal and other traditions, and a lack of contraceptives available to urban and rural masses.

The negative effects of high population growth rates complicate economic development in the Third World. The demographic explosion taxes society and its accumulation funds. High population growth rates registered in developing countries account for their specific population structures with the percentage of children inordinately high, running to an average of 40 per cent of the Third World's population (50 per cent in some developing countries) as against 30 per cent in the developed countries. Correspondingly, the share of the able-bodied population is lower, running to an average of slightly more than 50 per cent as against 67 per cent in the developed countries. As a result, in the developing countries the dependence rate, an important factor in economic development, is far in excess of that in the developed countries. A high dependence rate limits the possibility for each family to highten the living standards of its members and maintains the way of life typical of backward societies.

For society as a whole, a high dependence rate complicates the course of social and economic progress because the ratio between the number of people participating in the consumption of national income and the number of people participating in its creation restricts the possibility for its expansion. Since the maintenance of the low subsistence level of the rapidly growing mass of the population requires more and more funds, a relatively small percentage of the accumulation funds is used for the purposes of social and cultural development.

The demographic explosion overburdens the social infrastructure, aggravates the food problem and makes it increasingly difficult to protect the environment against the damage caused by economic activity.

The unfavourable effect of the high population growth rate is enhanced by employment difficulties which are especially far-reaching in developing countries. If at a given moment children of dependent age account for a large percentage of the population, an increasing number of them will annually join the working age group and will

have to be involved in the social production process. As the growth in the number of the able-bodied population far exceeds the number of available jobs and since the quality of training provided to young workers fails to match production requirements, the Third World registers a stable tendency towards producing a growing number of unemployed, both officially registered ones and the latent semi-unemployed ones, referred to as part-time workers. The aggravation of the employment problem complicates the overcoming of backwardness, hampers economic and social progress, and leads to excessive urbanisation, which further worsens the socio-economic situation in Asia, Africa and Latin America.

In the Third World as a whole the effect of the spontaneous processes that are taking place in socio-economic life and cannot be rationally controlled have an especially pronounced nature. For this reason, many reforms and measures designed to promote economic progress remain ineffective or cause unexpected complications bringing to naught the achieved results.

## 4. The Economic Role of the State

In modern conditions, the state is the most important factor of economic progress in all countries. The course of economic progress and its effect on society and its members depend both on the socio-economic orientation of the state and on the effectiveness of its measures to implement the declared goals.

The state determines the legal basis for the functioning of the national economic mechanism. In capitalist countries, this legal basis is the freedom of private entrepreneurship supported by the state. For instance, the state may assist an ineffective or near-bankrupt private enterprise by distributing its losses among the members of society. The state also undertakes the performance of the functions that are necessary for society, including private enterprises, and do not yield any profit (and are therefore of no interest for private corporations). In capitalist countries, the state adheres to the principle of non-interference in private busi-

ness, undertaking urgent measures only when inordinate abuses of individual entrepreneurs or corporations threaten the interests of the entire system of private entrepreneurship system. Among such measures are for instance, state-sponsored anti-monopoly actions undertaken in some Western countries.

In socialist countries, the state runs the economy and performs the function of ensuring economic progress. Securing for all members of society an equal access to participation in promoting economic progress and utilising its results is one of the main principles of the operation of the state. The application of this principle depends on the effective organisation and functioning of the state machinery.

The states in the Third World are variously oriented, this means that different states have different approaches to their function of the main social force ensuring economic progress. In all developing countries, the state has a more important economic role to play than in the developed Western countries because it disposes of limited development potentialities, a multistructural economy and relatively weak private capitalist entrepreneurship. Its role is also enhanced by the need to introduce elements of planning in the economy.

Practically all developing countries map out their plans for economic and social development proceeding from certain concepts and priorities and organise the implementation of these plans (not always successfully, though). Each plan specifies the general strategy of economic progress accepted in the given country, envisages the realisation of programmes necessary to achieve the planned targets and is supported by appropriate budget allocations. Thus, the effectiveness of state planning largely determines the course of economic progress.

In all developing countries, the public sector covers a far greater part of the economy as compared with the developed Western countries. As a rule, the public sector incorporates modern enterprises and industries that form the foci of technological and economic progress. By running the public sector (i.e. the nationalised enterprises) govern-

ment organisations influence not only the economic activity of the sections of modern industries covered by the public sector, but also the entire course of economic progress in the country (for more detail see: Chapter 8).

Whereas in the developed Western countries the scientific and technological potential is largely created by private corporations with the assistance and participation of the state, in the developing countries the formation of the national scientific and technological potential is almost fully the responsibility of the state which also forges national policies in the area of science and technology. This policy is determined by the general strategic targets of economic and social development and reflects the political orientation of the government. The elaboration of the national scientific and technological policy is the duty of government organisations which are set up for this purpose and form the headquarters that coordinates the functioning of all the components of the scientific and technological potential.

The state also sets up a network of research establishments, institutes, laboratories and stations, finances their activity, and sees to it that their programmes promote national interests.

The 'green revolution' that made it possible for India, to cite but one example, to become self-sufficient in terms of food supplies was a success precisely because the state was the motive force behind it. It helped the farmers to get hold of heavy-yielding grades of wheat, corn and rice, built water reservoirs, canals and electric power plants, assisted in providing the farmers with fertilisers, herbicides and pesticides and created the agricultural credit system.

Thus, the material basis for economic progress is more stable in those developing countries where the state is more active in performing its organising function in the economy.

The national personnel capable of directing the socio-economic development of their country and to ensure the modernisation of the social fabric—from its productive forces to its cultural domain—is the main factor of economic progress. Developing countries often suffer from acute shortages of qualified personnel. Personnel training is the

responsibility of the state. Developing countries have to create nationwide educational systems capable of training the young generation as future fully-fledged participants in contemporary social life. Moreover, the state has to compensate for the damage caused by the colonial rule and make efforts to combat illiteracy among the adult population. This creates an additional financial burden unknown to the rich countries where complete literacy has long been achieved.

The state organises and finances the training of specialists of all levels, from skilled workers for state enterprises to scholars, engineers, physicians, teachers, etc. It also renders assistance to those private firms which carry out programmes aimed to train skilled workers, technicians and engineers.

Over a comparatively brief period of time since their liberation, the developing countries have achieved appreciable results in training national personnel, researchers included. However, they are facing the acute problem of 'brain drain' that impairs their efforts to overcome backwardness. The effectiveness of the utilisation of this personnel, which in current conditions proves to be far below the standards accepted in the developed countries, largely depends on state policies.

Since the state is a most important factor of economic progress, the latter primarily depends on whether or not the state system and the state machinery are able to meet the requirements of contemporary social development. Hence the need to constantly improve the state system and to staff it with competent, conscientious and patriotic people.

The insufficient competence of government officials, especially those holding important positions and concerned with economic, social and cultural matters, has a negative effect on economic progress. Progress is hampered by corruption, embezzlement and the abuse by government officials and managers of their positions for the purpose of their own enrichment. In other words, it is hampered by the emergence of the new social group known as the bureaucratic bourgeoisie.

The economic history of some developing countries has known many abrupt changes in their social and economic development strategy. Changes are usually associated with coups d'ètat, the transfer of political power to social forces whose ideological stand differs from that of their predecessors in the key positions of state power. The idea of economic progress as such is often compromised by the attempts to implement economically unsubstantiated, large-scale projects. Based on the application of new technologies, these projects are aimed at winning prestige rather than achieving national economic goals. They can also be compromised by the low effectiveness of modern enterprises, including those in the public sector.

Apart from the usual difficulties of being in the making developing states often suffer from pressures exerted on them from without, i.e. by the economically developed centres of the world capitalist economy driven by selfish interests which influence their orientation.

Complicated and ambiguous interaction between the principal internal factors of economic progress in developing countries is continuously and increasingly influenced by the external factors that will be considered in the chapters to follow.

*Questions for Self-examination*

—What makes up society's productive forces?

—What are the main factors of labour productivity?

—What is the role of the social division of labour?

—What are the peculiarities of the system of productive forces in developing countries?

—What is the socio-economic structure of developing countries?

—In what way does it differ from what is typical of the developed Western countries and of the socialist states?

—What is meant by national income?

*Topics for Discussion*

—Ways to meet social requirements in the domains of production, distribution, exchange and consumption.

—The impact of demographic processes on economic development.

—The influence of the state and its institutions on economic progress.

CHAPTER 4

# International Division of Labour and World Trade

The basic form of economic ties between countries and, consequently the main external factor influencing their development is world trade, in which all countries of the world without exception are involved to a greater or lesser extent.

The history of world trade dates back to time immemorial. But only in our day and age has it assumed such proportions and such an impact on each and every country that the slightest hitch or complication on the world market immediately affects the everyday life of ordinary people in all continents.

It is in the sphere of world trade that the difference between rich and poor nations manifests itself most clearly, and it is there that their economic interests collide most sharply. It is there that the roots of contradictions between countries and international exploitation are to be found.

For each country, involvement in world trade entails the establishment of a special branch of the economy—foreign trade—which has its own institutional structure, its own laws of development, and which is at the same time closely connected with all the other branches of the domestic economy and with the world market. All this makes the study of world trade and defining the role of each particular state an important objective in a general economics course.

The underlying principle of world trade is the constantly deepening international division of labour.

## 1. International Division of Labour

The emergence of international division of labour dates back to the time when, due to the differing climatic conditions and natural resources, different tribes, clans and communes, along with producing the most essential staples for their own consumption, also specialised in producing certain things that were meant for exchange with other tribes, clans and communes.

Gradually, production specialisation became a permanent feature of the economy, as it was based on one permanent factor: climatic differences between different territories occupied by different national entities, which gradually formed corresponding economic entities. In the course of development of the organisational structure of the world community and its division into separate states, such specialisation evolved into international division of labour in the full sense of the word, which can be defined as a form of economic relations between separate states, based on production links as determined by the manufacture in each country of different products, that is, based on their production specialisation.

International division of labour underlies, in terms of production, the existence and growth of the world market as a sphere where the exchange of commodities between states is performed, as the theatre on whose stage the dramas of world trade take place.

As the world economy developed, especially under the impact of industrialisation, which has its roots in Britain, climatic differences ceased to be the determining factor of international division of labour (although they continue to play an important part in production specialisation). The determining factor was now the difference in economic, above all industrial, development. The world became divided into the industrialised countries, on the one hand, and raw materials-producing agrarian countries, on the other. One category are rich countries, the other—poor countries. Moreover, today the specialisation of one group of nations in producing raw materials and of another

group in manufacturing goods constitutes the principal content of the international division of labour.

Given the great diversity of countries, such division of labour is becoming increasingly involved. On the one hand, between the highly industrialised and backward raw material-producing agrarian nations, there is a wide range of countries belonging to an intermediate category: industrial-agrarian and agrarian-industrial countries, which, of course, does not mean that the production differences between them are evened out. On the other hand, the international division of labour within each of the above groups of countries is also developing, that is to say, there is a growing production specialisation between the industrialised countries, with a resulting increase in the scope of trade between them, and the raw materials-producing agrarian countries are also becoming increasingly specialised and are consequently becoming more and more involved in the international farming and raw materials trade: today, an agrarian country not only sells its own farm produce, but buys farm products from other agrarian countries, including such products that complement her own yield.

Another modern trend is industrialisation of the developing countries, which is gradually changing their role in the international division of labour. Many formerly agrarian countries are turning into agrarian-industrial or raw material-producing industrial countries. At the same time, their economies are becoming increasingly dependent on the world market.

There are also growing differences between the developing countries in their production specialisation. Several groups of developing countries can be singled out according to their specialisation: oil-exporting countries (thirteen OPEC* members and several more countries not affiliated to OPEC); new-industrial countries (countries and territories with new, distinctly export-oriented manufacturing in-

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* The Organisation of Petroleum Exporting Countries, or OPEC, was established in 1960. It includes: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

dustries—Singapore, South Korea, Taiwan and Hong Kong); large countries with rapidly expanding domestic-oriented industries (India, Brazil, Mexico, etc.); countries exporting minerals (Zaire, Zambia, Guyana, Guinea, Bolivia, Jamaica, and certain other countries specialising in export-oriented agricultural production); and finally, countries with a negligible export quota of the GDP. (An export quota is the proportion of a country's total export to its Gross Domestic Product. It expresses the degree of a country's production specialisation. The smaller the country and the higher its level of economic development, the greater this proportion).

In each of these groups a few countries can be singled out which are the major producers of a certain commodity. Table 1 shows the major exporters of minerals; Table 2, exporters of farm produce.

*Table 1*

**Developing Countries: Major Exporters of Minerals (1982)**

| Commodity | Country | Production (in thousands of tons) | % of total Third World production |
|---|---|---|---|
| Copper | Chile | 1,241 | 38 |
| | Zambia | 584 | 18 |
| | Zaire | 503 | 16 |
| Bauxite | Guinea | 10,908 | 38 |
| | Jamaica | 8,380 | 29 |
| | Brazil | 4,186 | 15 |
| | Surinam | 3,059 | 11 |
| Manganese ore | Gabon | 1,667 | 30 |
| | India | 1,586 | 29 |
| | Brazil | 1,433 | 26 |
| Tin ore | Malaysia | 40 | 31 |
| | Indonesia | 28 | 22 |
| | Bolivia | 25 | 19 |
| | Thailand | 20 | 15 |
| Uranium | Namibia | Data not available | |
| | Gabon | | |
| | Niger | | |

*Table 2*

**Developing Countries: Major Agricultural Producers (1982)**

| Commodity | Country | Production (in thousands of tons) | % of total Third World production |
|---|---|---|---|
| Cotton | India | 6,120 | 32 |
| | Brazil | 2,641 | 14 |
| | Pakistan | 2,600 | 14 |
| | Turkey | 2,310 | 12 |
| | Egypt | 1,875 | 10 |
| Cacao beans | Brazil | 350 | 23 |
| | Ivory Coast | 395 | 26 |
| | Ghana | 155 | 10 |
| | Nigeria | 150 | 10 |
| | Cameroon | 100 | 7 |
| | Ecuador | 62 | 4 |
| Rubber | Malaysia | 1,510 | 42 |
| | Indonesia | 990 | 30 |
| | Thailand | 585 | 16 |
| | India | 166 | 5 |
| | Sri Lanka | 134 | 4 |

The role of each country in the world capitalist economy depends on its production specialisation and commodity structure of foreign trade. The advantage in such trade always belongs to countries specialising in manufactured goods, especially those which are technically sophisticated and require science-intensive industrial production, whereas countries specialising in raw materials or related simple products usually benefit to a much lesser extent from such trade or even sustain losses.

Therefore, every country seeks to "upgrade" its export, that is to say, to raise the proportion of manufactured goods in the commodity structure of its export, to process raw materials on its own territory, and to eliminate the raw material-producing and agricultural orientation of its economy and foreign trade.

Originally, the international division of labour took shape as each country's inter-industry specialisation, expressed

in the concentration in each country of certain branches of production oriented towards the world market, while other branches were either less developed or were absent altogether, which was compensated by importing all necessary commodities from abroad.

But today, increasing importance in the international division of labour belongs to intra-industry specialisation, which turns each participating country into a separate link in the manufacturing of a particular product. Intra-industry specialisation leads to international production cooperation, both between independent firms and within transnational corporations. (A transnational corporation is a private capitalist firm that owns or controls enterprises in several countries, instead of just one country.)

The actual role of the developing countries in the international capitalist division of labour is determined not only by their production specialisation and the commodity structure of their foreign trade, but by a number of characteristics that highlight the nature of their relations with the developed countries in this field. Let us examine these characteristics one by one.

1. The production specialisation of developing countries is shaped primarily by the economic needs of the industrialised centres of the world capitalist economy. As the international division of labour among the developed capitalist countries deepens, they act as competing national economies of a similar type, that is, economic partners, each defending its own interests. By contrast, economic relations between the developed capitalist countries and the developing countries can be characterised as a subject-object relationships. The subject is the Western industrialised states and transnational corporations; the object is the developing countries, whose role in the world capitalist economy (read in the international division of labour) is determined by the subject.

The main factor in shaping the developing countries' economy is not their own economic potential, but the partial transfer to their territory of production by transnational corporations. As a result, in many countries of Asia, Africa and Latin America, production units are set up

which put out a partial product (separate parts, semi-finished products, ready items assembled from parts manufactured in other countries, etc.).

Since the industrial enterprises set up in the developing countries are not economically autonomous, they constitute part of the production potential of the developed capitalist countries.

2. The benefits arising from the international division of labour between the developed and developing countries are distributed extremely unevenly.

Although division of labour underlies progressive development, in a certain context it may become the decisive factor causing sluggishness and even stagnation of the entire system of social relations. For the developing countries, participation in the international division of labour often involves this limitation.

3. The world market is artificially broken up into separate zones. As a result, production relations often hinder developing countries' extensive participation in the world economic exchange; they often become attached to their industrialised partners on an unequal basis and lose the right to develop mutually advantageous relations with other countries.

These and certain other specific features of the international division of labour make the world market an arena of bitter economic and ideological struggle.

The advantages of participation in the international division of labour and mutual trade were extolled back in the 18th century by the celebrated British economist Adam Smith (1723-1790), who argued that whenever it is cheaper to import a certain commodity from abroad than to manufacture it domestically, it is much better to import it, paying with a commodity that one's own country can produce at less expense than any other country. Another famous English economist, David Ricardo (1772-1823), called for complete freedom in world trade, claiming that only then would each country invest its capital and efforts in such enterprises for which it has better conditions than anyone else. David Ricardo's *comparative costs theory* is still current among many economists, who refer to it in

trying to prove that participation in the international division of labour and world trade is advantageous for all countries, regardless of their economic development level.

Even today it is widely believed that each country seeks to specialise in producing commodities for which it has the best conditions and richest resources and which, therefore, will require the least expense. Some other commodities for whose production another country is better suited, should be imported from that country, rather than produced locally. Therefore, according to the American econommist H. Chenery, developing countries that have certain advantages for producing raw materials can reach econoic prosperity even without increasing the proportion of industrial production in their GDP. However, practical experience shows that developing countries possessing major natural resources and specialising in raw material exports (for example, Zaire) still remain the poorest partners in world trade.

Another belief current among economists today is that the developing countries should specialise in labour-intensive industries that require unskilled or semi-skilled labour, relatively little capital investment, or have other major advantages over other countries.

## 2. World Trade

World trade is a special form of trade, because it transcends state boundaries. Regardless of who the seller and who the buyer is (individuals, private firms, cooperative enterprises, or state agencies), all goods that enter a country as a result of a foreign trade transaction constitute that country's import, whereas all goods that leave the country form its export. Combined, the country's export and import constitute its foreign trade turnover. The difference between import and export is called the country's trade balance. This balance is active (favourable) if exports exceed imports and adverse (negative) if imports are greater than exports.

Foreign trade constitutes a special branch of the economy because its functioning requires a special network of organisations (export-import companies, commercial firms, etc.) that maintain contacts with counterpart organisations in other countries; a developed infrastructure that includes storage facilities, refrigerators, loading equipment, transport facilities (above all, seagoing vessels, because the bulk of goods in foreign trade is transported by sea); finance and credit agencies which underwrite all goods entering into foreign trade (insurance companies); effect all financial operations involved, crediting of foreign trade, currency exchange, etc. (banks).

To be able to take part in world trade on equal terms, a country must not only have the requisite export resources and the foreign currency to pay for imports, but must enjoy free access to the entire above-mentioned infrastructure, without which the goods cannot make their way from seller to buyer. In the sphere of capitalist world trade, almost the entire bank system and material infrastructure is owned or controlled by private capital in the industrialised countries, which fact places the developing countries at a great disadvantage. To take part in world trade, they are compelled to secure the services of well-established commercial firms, shipping companies, insurance companies, and banks. Payment for all these services takes a large part of their export revenues, constituting for the developing countries a kind of 'invisible import', which imposes a heavy burden on their trade balance.

From 70 to 90 per cent of farming produce and minerals exported by the developing countries are sold on the world market through the trade network of a few major corporations that dominate trade in those particular goods throughout the entire capitalist world. These corporations can regulate the trade turnover, thereby influencing the export opportunities of the developing countries, price levels and the world distribution of trade.

The world market is a field of cut-throat rivalry among producers of similar goods in different countries. With the development of world production, this rivalry escalates as a result of changes in the international division of labour,

which increasingly divorces the production specialisation of countries from their natural potential as dictated by specific geographical features, making such specialisation universal. Hence the growth in the number of countries manufacturing similar—above all industrial—goods, and new competitors keep emerging on the world market, threatening the position of long-established producers.

For a whole century, while Britain enjoyed the role of 'the world's workshop', British manufactured goods (textiles, especially cotton goods, metalwares and first-generation machinery, including various steam engines), met with almost no competition in the world market. But as the industrial revolution spread to other countries, they too started selling similar products. Today it would be difficult to find a country that would not have its own textile industry and would not sell textiles and textile products on the world market.

In the context of scientific and technological progress, more and more countries, including some developing ones, are mastering the manufacture of technically sophisticated and science-intensive industrial goods, including household electronic appliances, electronic equipment for civilian and even military use (from colour television sets to industrial robots). Such production is in no way associated with the mineral resources and climatic conditions of the countries concerned, since the necessary facilities can be set up on a tiny island just as well as in a major continental country.

As the international division of labour becomes more dynamic, international trade links become increasingly unstable. Escalating competition between countries assumes a character similar to international warfare; not surprisingly, the greatest trade conflicts were called 'the textile war', 'the automobile war', 'the computer war'.

In such conditions, of great importance is wise trade policy, which in one form or another has always been pursued by national governments throughout the entire history of world trade.

The principal agency that conducts its government's foreign trade policy is the customs authority. Any commodi-

ty imported into or exported from a country must first go through the customs, where it is registered, where observance of national regulations is checked, and where customs duty is paid. (Customs duty is a fee charged by the state from individuals and organisations for permission to import or export goods—import or export duty, respectively. Most often, the amount of customs duty is a certain fixed percentage of the cost of the goods.) Secret import or export of goods by-passing the customs is called smuggling and is considered a serious criminal offense.

As a rule, governments conduct flexible and differentiated foreign trade policies, striking a happy medium between the two extremes: free trade and protectionism. Complete freedom of trade implies that the customs only register all the goods imported and exported, but charge no duty and impose no bans. Such a policy is not conducted by any country.

Protectionism can assume various forms ranging from a complete ban on the import or export of a certain commodity to the imposition of certain limits and the introduction of taxes and duties—from relatively light to prohibitive (a very high prohibitive tax or duty renders the import or export of a given commodity totally unprofitable). As the name of such foreign trade policy suggests, its aim is to protect the country's economy against competition from foreign producers of similar commodities. Other aims of protectionism include efforts to alter the structure of production in the country, limit or modify the consumption level of the population or certain sections of it, regulate the country's financial situation, generate additional state revenues, etc.

In conducting a specific foreign trade policy, the government substantially affects above all the interests of its own people or any specific class or stratum. Therefore, all conflicts over foreign trade issues—specifically between proponents of free trade and advocates of protectionism—have often been in the focus of internal political struggle.

The difficulty in determining a foreign trade policy best suited to a concrete period is that its results are always multiple and complex. Its effect is different not only for

different social classes and sections of the population in a given country, but literally for every individual. For example, duty-free import of a certain commodity is, on the one hand, welcomed by the population since it brings down the retail price. But on the other hand, this undermines the relevant domestic industry and as a result, people employed by that industry suffer wage cuts or lose their jobs. Protectionism meets the interests of national industrialists protecting them against foreign competition, on the one hand, but threatens their industry with technological stagnation, on the other.

Some countries abuse the policy of protectionism to such an extent that they not only shield their domestic economy against all foreign competition, but conduct a massive export of low-priced commodities to other countries, thereby damaging the corresponding industries there. Such a foreign trade policy is called aggressive protectionism.

A separate country's foreign trade policy invariably affects the interests of other countries. Besides customs barriers foreign trade policy includes various restrictions and bans (embargoes), often applied to some particular countries, which are thereby discriminated against. Western powers often use various discriminatory restrictions and embargoes in trade to achieve military, political and strategic ends, to interfere in other countries' domestic affairs, or to penalise a certain country whose domestic and foreign policies they disapprove.

The present-day customs system operating in the industrialised Western countries is basically disadvantageous to their Third World trading partners, obstructs the modernisation of their economic structure and keeps them from improving their position in the international division of labour. Under that system, the amount of import duty as a rule rises in direct proportion to the degree to which the import commodity has been processed. Thus, a very small import duty is set on raw materials and some are imported duty-free. A higher duty is imposed on semi-finished products, and the highest on manufactured goods. As a result, it is often unprofitable for developing countries to export manufactured industrial goods and they are com-

pelled to maintain their traditional export structures, the bulk of which is raw materials. For example, copper in ingots can be imported duty-free, whereas copper wire is 5 per cent taxable. With the price of ingot copper at $1,000 a ton and the price of copper wire $1,200 a ton, the import duty in fact consumes 30 per cent of the value added in the process of transforming ingot copper into wire ($60 out of $200). In other words, its export brings a loss, since the profit generated by processing copper into wire falls far short of 30 per cent of the value added. Likewise, for vegetable oils, an import duty of 11 per cent in actual fact consumes 130 per cent of the total value added.

In recent years the trend towards lower import duties has been compensated by a system of non-tariff import restrictions, including: complication of the customs and administrative procedure for imported goods; introduction of extra strict standards that cannot be met by goods manufactured in the developing countries; special requirements for packing and marking; special and often unjustified requirements for ecological purity; imposition of unnecessary quarantines, and so on.

It is clear, therefore, that the trade policies of the industrialised Western countries aim to secure the advantages they have traditionally enjoyed on the world market. These policies are shaped by the selfish interests of the ruling quarters in the Western countries. As a consequence, world trade is disorganised and artificial barriers are erected to equitable international trade.

## 3. Prices in World Trade

The pricing of goods on the world market is of crucial importance to the economic status and development conditions of all the participating countries. To a great extent, the correlation between the prices of imported and exported items and the dynamics of these prices determine the role of foreign trade, which in some cases can stimulate economic development, technological growth and accumulation of national wealth, while in other cases it can pump the national wealth out of a country and encourage inter-

national exploitation, thus bringing the country to economic ruin.

World market prices are determined by a number of factors and can fluctuate sharply within certain periods of time.

The world market is flooded by similar commodities produced in different countries under differing economic conditions, but they all have the same price at any particular moment. This price is based on the international cost, which is regulated by economic conditions in countries producing the bulk of that particular commodity. Countries with better economic conditions will reap additional profits from the sale of their goods, while countries with worse conditions will suffer losses. In recent years, worst hit by this inexorable pricing pattern has been the agriculture of many developing countries. It has to compete with the highly efficient agriculture of Western countries—the major suppliers of grain on the world market. Wheat grown in Western Europe and North America with the help of advanced farming methods has inundated the developing countries, in which domestic grain production is shrinking all the time under the impact of cheap imports.

Based on international cost, prices keep going up and down under the influence of the current correlation of supply and demand.

Since the developing countries act in world trade chiefly as suppliers of raw materials, their export revenues largely depend on the fluctuating demand for raw materials in the industrialised countries. Over the last decades, there have been several instances of a slight rise in demand for certain raw materials, with consequent price rises, but such increased demand never lasted for very long. The predominating trend, however, which in recent years has stabilised even further, was a relative fall in demand for agricultural products and raw materials and mineral fuels from the developing countries. This falling trend is determined by several factors. First of all, new technologies are making the production process less energy-consuming, i.e. a lesser amount of raw materials is required per unit of

manufactured goods. Secondly, new synthetic materials are produced in the industrialised countries including petrochemical products which increasingly replace natural materials traditionally produced in the developing countries. And finally, the general slowing down of economic growth in the West and repeated economic recessions also reduce demand for raw materials.

At the same time, the developing countries' raw materials production potential keeps growing. Consequently, the increasing rift between supply and demand results in falling prices of raw materials.

The developing countries suffer not only from this general tendency, but also from the sharp fluctuations in prices of raw materials. Whenever prices go up, an impression of prosperity is created in the exporting countries concerned. But this appearance does not last very long, because these countries cannot accumulate the suddenly increased profits and do not manage to establish a firm foundation for long-term economic growth. On the contrary, such windfall profits only serve to disorganise their economies, since they give rise to new disproportions and create a lifestyle that cannot possibly be maintained after the inevitable subsequent decrease in demand and fall in prices.

These unfavourable price trends are further aggravated by the gigantic Western corporations that monopolise trade in certain commodities and have a great influence on pricing. They set artificially high prices for items imported by the developing countries from the West and artificially low prices for items imported from those countries. As a result, trade between the industrialised and developing countries on the world capitalist market becomes unbalanced, which means that the developing countries give away more of their material wealth than they get back from the industrialised West. The rich become richer, the poor sink deeper into poverty.

The difference in the prices of commodities exported and imported by the developing countries is registered by international statistics in the form of a 'trade conditions index'. Over a long period from 1950 to 1984, real prices of metals and minerals were falling at an average annual

rate of 0.09 per cent, while in the period from 1970 to 1979, the annual rate was 4.06 per cent. For agricultural products, the average annual rate of decrease over the same 35-year period was 1.03 per cent. By contrast, prices of manufactured goods imported by the developing countries from the West showed a steady increase.

As a result, whereas, for example, in 1959 revenues from the sale of 24 tons of sugar were sufficient to buy one 60 h.p. tractor, in 1982 the purchase of the same tractor would require the sale of 115 tons of sugar, and in 1987, 133 tons. Similarly, in 1959 proceeds from the sale of 6 tons of jute were sufficient to buy one lorry; in 1982 the purchase of a similar lorry required the sale of 26 tons of jute, and in 1987, 54 tons.

The world market is characterised by a variety of prices of one and the same commodity, which fact enables the major corporations to manoeuvre in order to reap extra profits at the expense of the developing nations. Any commodity produced in the developing countries and sold on the world capitalist market acquires a number of successive prices. The lowest price, totally divorced from the export price, is paid by the middleman to the peasant farmer for the harvested crop. When it is exported from the country, it fetches a higher price, and the receipts going to the country's balance of payment. Of special importance are quoted prices on the stock exchange, which are largely shaped in the process of speculation. Finally, the retail price which the consumer pays for the imported goods is much higher than the price paid to the producer in the developing country. For example, the cotton grower gets a mere 6.4 per cent of the final retail price for which manufactured goods of cotton textiles are sold in the industrialised West.

On the other hand, in exporting goods from an industrialised Western country, corporations often set two prices: a relatively low price is set on goods exported to other industrialised countries, whereas a higher price is set on the same goods when exported to the developing countries.

In recent years, the greatest damage to the economies of the developing countries has been caused by so-called

transfer prices in the process of commodity exchange among enterprises belonging to a transnational corporation but situated in different countries. Transfer prices are set on commodities sold within the TNC's common production mechanism. These are quite artificial payment prices that have nothing to do with the actual cost of the goods or with the world market price. A subsidiary of a TNC situated in some country of the Third World sells its product to the parent company in an industrialised Western country at an artificially low transfer price while buying equipment and supplies from that same parent company at an artificially high transfer price. As a result, the subsidiary formally operates at a loss, since the actual profit that it generates is thus transferred to the parent company. Naturally, transfer pricing can be used only within a given TNC. Yet today world trade is being increasingly conducted within TNCs.

In order to obtain equitable prices on their goods, the leading exporters in the Third World have united in various associations for the purpose of influencing the process of pricing. Starting with the mid-1970s, the greatest success was reached by OPEC. Having gained control over the oil-pricing mechanism, within eight years OPEC steadily pushed prices up, which by 1982 reached approximately $40 per barrel, as compared with under two dollars per barrel in early 1973. However, after 1982 the trend was reversed and, despite all OPEC efforts to resist it, by 1986 the price fell to between $10 and $12 a barrel.

Other similar associations of raw material producers have proved unable to control export prices to any appreciable extent.

## 4. Principal Trends in Trade Turnover

Today world trade turnover maintains its long-term trend of growth at a higher rate than that of world production. That means an increasing proportion of goods produced in the world are sold outside the respective producer country, which in turn means the international division of labour continues to deepen and that foreign trade

is playing an increasingly important role in the economic development of every country.

From 1961 to 1980 the GNP within the world capitalist economy grew at an average annual rate of 4.5 per cent, industrial production at 5.5 per cent, and foreign trade turnover at 6.8 per cent.

In the five leading industrialised Western countries, the share of foreign trade turnover in the GNP grew over the same 20-year period as follows: in the United States, from 5.6 to 16.4 per cent; in Japan, from 19.9 to 25.9 per cent; in France, from 21.8 to 37.6 per cent; in West Germany, from 29.9 to 46.0 per cent; in Great Britain, from 36.0 to 50.8 per cent.

However, the growth of world trade turnover is by no means stable—it fluctuates sharply from year to year. For example, in the early 1980s, the development of world export was as follows: 1981, growth of 0.04 per cent (practically no growth at all); 1982, decrease of 3.07 per cent; 1983, growth of 2.61 per cent; 1984, growth of 8.55 per cent.[1]

In other words, world trade fluctuates much more than world production. Therefore, the impact of world trade on production is extremely unstable and even contradictory: while stimulating production in some periods it damps it in others.

This contradictory role of world trade has serious consequences for some countries. The above-mentioned average fluctuations in the world trade turnover actually mean that in some countries these fluctuations are much more dramatic. Besides, in certain countries foreign trade can even go down at a time when it is on the rise in the rest of the world, and, conversely, it can grow in a period of general stagnation in world trade. But of much greater importance for each country's economy is the uneven development of its export and import, the combination of which constitutes that country's foreign trade turnover.

In world trade as a whole, the value of exports must be equal to the value of imports, since what is export in one country is at the same time import in another country. Yet there is a difference between the value of world exports and

imports, since the import price of a commodity must necessarily be higher than its export price: the import price also includes transportation expenses (freight charges) and insurance expenses (insurance premium). Therefore, whereas the value of exports is expressed in f.o.b. (free on board), imports are expressed in c.i.f. value (cost, insurance, freight), which is naturally higher.

In any country, the difference between the value of exports and imports can be quite tangible, and a prolonged trade deficit (when imports exceed exports) can seriously damage the country's economy. No country is guaranteed against such a deficit, even the very richest in the industrialised West. In 1986, for example, the United States found itself with a trade deficit running at $156 billion. As far as the developing countries are concerned, for them balancing imports and exports has always presented a formidable hurdle, in most cases insurmountable. Only the oil-exporting countries and a few other countries in the Third World which found themselves in an extremely favourable situation, managed to maintain an active trade balance for a certain period.

The most rapid growth of exports in recent decades has been in Japan. Her constantly growing exports considerably exceeded the growth of imports, as a result of which the country accumulated a mammoth financial surplus which, however, found only limited investment possibilities within the country. So Japan has been exercising its economic penetration both into the industrialised capitalist countries and the developing countries of the Third World.

The developing countries' position on the world market is highly uneven and contradictory. Figures almost over a quarter of a century show a slight increase in their share in world trade: from 24 per cent in 1960 to 28 per cent in 1983. However, this general trend conceals, in the first place, a sharp decrease in their share at certain periods (in 1970, for example, the figure fell to less than 20 per cent; it also fell in 1981-1982), and in the second place, tremendous differences between countries.

Another major trend in world trade is the growing proportion of external trade within each world community—

among the industrialised capitalist countries, among the developing countries, and among the socialist countries—particularly within integrated economic groupings.

For the developing countries, this trend threatens to cause additional complications. They must take into consideration a prospective decline in their position of trading partners of the industrialised capitalist countries. At the same time, the foreign trade interdependence of the industrialised and developing countries is becoming increasingly asymmetrical. In the early 1980s, for the developed capitalist countries, payments for imports of farm produce from the developing countries made up less than four per cent of their total import expenses, whereas for the developing countries, farming exports yielded up to 90 per cent of all foreign currency receipts. Naturally, in such a situation the economic interdependence of the trading partners is very unequal, in spite of all the talk about them being equal. Even considerable price and value fluctuations in trade with the developing countries cannot seriously affect the economies or consumer spending levels in the developed countries, whereas, for the Third World exporting countries such fluctuations will have a decisive influence on their economic situation and living standards.

Whereas the crucial role in the developed countries' foreign trade situation belongs to other developed countries, the developing countries still rely in their foreign trade mainly on the developed capitalist countries which account for over 70 per cent of their exports and almost the entire import. For that reason, the developing countries' economy is highly vulnerable: they are seriously affected by any change in the developed capitalist countries' foreign trade policy and by any fluctuation in export and import prices.

The growth in mutual trade among the developing countries can by no means substitute their trade links with the developed capitalist countries, since Western Europe, North America and Japan still remain the major consumers of the developing countries' export, and the developing countries themselves lack the potential to supply each other with the modern means of production, which so far they can get only from the industrialised countries.

The developing countries' inequitable position in world trade is also largely determined by major trends in its commodity structure.

World trade is increasingly dominated by manufactured goods, while the overall share of farm produce and raw materials is constantly decreasing. Manufactured goods are mostly the item supplied by the industrialised countries. Besides, the proportion of sophisticated machinery, equipment, and modern science-intensive items in Western exports is constantly rising at the expense of traditional manufactured goods, such as textiles.

Arms sales claim a growing share in world trade, especially the most modern types of weapons and ammunition. Although a substantial arms trade is carried on within the Western alliance, arms sales to the developing countries have seen an especially rapid increase. The trade brings fabulous profits to Western arms manufacturers and, conversely, causes untold damage to the buyers, who include virtually all the developing countries (see Chapter 11).

There is a fundamental difference in the commodity structure between export and import. Export usually contains a limited number of commodities in which the given country's economy specialises. In some cases, a country specialises in one single commodity, which then constitutes the bulk of its export. For example, coffee makes up 93 per cent of Uganda's and 98 per cent of Burundi's exports, whereas 63 per cent of Chad's exports belongs to cotton. Such single-commodity specialisation places not only a country's foreign trade, but indeed its entire economy at the mercy of trends dominating the world capitalist market.

A country's import, by contrast, cannot be limited to just a few major items: it must necessarily include a broad variety of goods—from the means of production, including sophisticated modern technology, to food and raw materials. Therefore, the economic interests of the newly-liberated states demand that they diversify their exports and get rid of excessive dependence on one of just a few export commodities (particularly since prospects for increasing their export are rather limited), and expand production of new types of manufactured goods for export.

The tremendous dependence of the developing countries on the world market with its often unpredictable and uncontrollable fluctuations in demand, makes it imperative for the developing countries to take concrete steps to protect themselves against adverse market influences and hostile actions by Western corporations. Such measures can only be taken by the central government in each of the developing countries, and this includes both strict control over its foreign trade (in certain cases even establishment of a state monopoly on certain items of trade) and participation in international trade agreements that promote its country's economic interests.

The developing countries' trade links with the Socialist Community constitute a special sphere. But so far it is very limited, with only 5 per cent of their export going to the socialist countries and only 7 per cent of imports coming from there. It is true, however, that this section of world trade is now growing faster than any other.

The growth of world trade reflects the process of internationalisation of modern production that characterises our age of scientific and technological progress and the increasing interdependence of all nations. The next chapter will deal with the interdependence of all countries within the world economy and the relative position that the rich and poor nations occupy within it.

*Questions for Self-examination*

—What is international division of labour?

—What are the major trends in the international division of labour?

—What are the differences between the inter-industrial and intra-industrial international division of labour?

—What features characterise the division of labour between rich and poor countries?

—What is foreign trade turnover?

—What is 'invisible import'?

—How do Western trade policies affect the developing countries' foreign trade?

—What factors determine the price of goods on the world market?

—What is the essence of inequitable trade?

—What are transfer prices and what is their economic meaning?

—What are the major trends in world trade?

*Topics for Discussion*

—What is the best trade policy for the developing countries to adopt?

—How does world trade affect the economic development of the poor countries?

CHAPTER 5

# Interdependence within the World Economy

All the national economies of the world combined—rich and poor, capitalist and socialist—together with the entire system of their mutual economic relations, form the world economy, with each national economy forming an integral part of the whole. At least two conclusions can be drawn from this fact, which has a direct bearing on the economic study of rich and poor countries.

First: for all the specific features and different economic objectives of each particular country, it is the common objective laws of technological and economic progress that now play a decisive role in every country's development, and therefore every country's economic activity must above all meet the criteria and standards which are characteristic of the entire world economy.

Second: all the national economies are becoming increasingly interdependent, with very few options left for each country of isolated development that would disregard the general technological and economic trends in the world. Each country's economy is increasingly influenced by the developments in other countries and on the world market, and is forced to take into account these influences in shaping its own economic strategy.

Yet despite the obvious importance of the interdependence of each country within the world economy the problems arising from such a situation so far have not received sufficient attention in economic literature. The present chapter will attempt to examine these problems.

## 1. The World Economy

The scientific and technological revolution and the constant quest for economic efficiency have brought about a considerable growth in the size of enterprises. As a result, the internal markets of even the major industrialised countries have been unable to consume the entire output of factories and plants working at full capacity. Therefore, nowadays a large proportion of the output, especially the most up-to-date products, are meant for export. Technological progress in transport and communications has dramatically narrowed distances between countries and made lower transportation costs, thereby weakening the influence of the 'distance factor' on the location of enterprises and increasing the mobility of capital and the labour force.

The production process is progressively losing its national limitation. Industrial production confined within national boundaries is being gradually replaced by international production cooperation. Enterprises located in different countries are more and more becoming constituent units of an integrated world economic mechanism, regardless of whether or not these enterprises are subsidiaries on TNCs or constitute independent companies completely belonging to one country. The contract and subcontract systems are gaining ground, integrating separate companies in different countries in an international complex controlled from a single centre.

International economic ties even turn small peasant farmers selling their produce on the village market into participants in the world economy, making them feel the impact of technological progress in the rich industrialised countries. For example, peasant farmers growing sugar cane throughout the Third World are today making a loss because the main factor regulating sugar supply and its price on the world market is the rising labour productivity in beet sugar and corn syrup farming and the processing industry in North America and Western Europe which are the major producers of these commodities. As a result, the world price of sugar today covers only half the production expenses of cane sugar even in Malawi, the most cost-

effective cane sugar producer among the developing countries.

National boundaries can no longer halt the spread of economic disturbances erupting in any part of the world to all the other countries. In this context, of paramount importance is a national economy's ability to quickly adjust to changing conditions in the world economy. The more modern its productive forces, greater its economic reserves and closer its ties with the rest of the world economy, the higher is this ability of a nation. For that reason, whenever the developed countries encounter adverse economic trends or hostile actions from the developing countries and their associations, they can quickly find ways and means to neutralise such trends and actions, and large corporations, especially TNCs, can always find a way out of any unfavourable situation and increase profits even when their nations find themselves in economic difficulties.

For example, the sudden concerted offensive mounted by the OPEC countries in the autumn of 1973 at first threw the Western world into an energy crisis, thus negatively affecting the economy of a number of the developed countries, mainly West European countries. (Curiously enough, the oil transnationals managed to turn even the energy crisis into a factor of increased profits). However, in the long run, OPEC's onslaught brought about a technological and structural readjustment in the West which enabled it to make power consumption in industry, transport and the home more rational, thus bringing down its demand for OPEC oil and consolidating its positions in resisting any hostile moves by the developing world as such.

The movement of capital is not in the least hampered by national boundaries, as money-flows respond immediately to the slightest change in interest rates, currency exchange rates, and profit rates. The emergence of world monetary and credit centres not only in North America and Western Europe, but also in Japan and certain other parts of Asia (formerly Beirut; today Hong Kong and Singapore) has made it possible to establish an integrated world bank system that functions around the clock and is able to immediately transfer tremendous financial resources over un-

limited distances at any time of day or night. The world financial capital naturally involves the resources of the developing countries. Thus their national capital is pumped abroad instead of being invested at home, where there is a mounting financial shortage, which necessitates constant borrowing from international banks.

Despite the differences in the national labour legislation of different countries, the workforce of the developing world is also turned into an economic resource serving the needs of the world economy, regardless of the geographical location of the means of production involving the above workforce. In Western Europe and the United States, foreign workers are extensively involved in key sectors of the economy, whereas in Kuwait foreign workers, including many from faraway Southeast Asia, vastly outnumber the entire local population.

In the integrated world economy, the status of different countries and power centres is extremely unequal. A small country with a limited economic potential cannot influence the world economy. Moreover, being an object of their business activities it becomes the defenceless victim of economic decisions made by TNCs, or the major capitalist countries, or their alliances. For example, the US President's unilateral decision to raise bank interest rates to help solve a particular problem facing the American economy immediately affects the crediting conditions and, consequently, the entire economic life of all the countries of the world, particularly the position of peasant farmers, artisans, industrial workers, entrepreneurs and traders in Africa, Asia and Latin America. To quote the prominent English economist J. Pinder, 'The modern economy has become like a gigantic Swiss watch with a myriad of interlocking parts. With this intense interdependence, damage to one part can quickly cause damage to others'.[1]

Within this integrated world mechanism there emerges a complex of contradictions between national interests of each country and development trends in the world economy, between the national economic sovereignty and the unimpeded development of production factors the world over.

In economic theory, these contradictions are reflected in

two different approaches to the role of national sovereignty in today's world community. One theory, advocated by a number of US economists and EEC ideologists, declares that the notion of national sovereignty is hopelessly out of date and goes against the actual trend in world development. In the words of the US economist L. Brown, national sovereignty can hinder the efficient organisation of economic activity, the spread of technology throughout the world and higher living standards for the greater part of mankind—and often does become such a hindrance.[2] Another American economist, J. Howe, of the Overseas Development Council declares that each national government in pursuing its economic policy must proceed not from the narrow interests of its own country, but from the objectives improving dynamism of the international economic order and strengthening cooperation in solving common global problems.[3]

According to other concept, shared by many economists in the developing and socialist countries, the increasing vulnerability of each country's economy implies that it is only by strengthening national sovereignty that each country can protect its national interests in these conditions.

The world community within the framework of the UN General Assembly has given its overwhelming support to this latter doctrine, adopting at its special 1974 Session a Declaration on the Establishment of a New International Economic Order. The Declaration proclaimed each country's full and inalienable sovereignty over its natural resources and national economy, including the right to nationalise and regulate the activities of TNCs.

## 2. Common Heritage of Mankind

The rapid process of internationalisation of production and the formation of a world economy, taking place against the background of a population explosion in Asia, Africa and Latin America, has been followed by a rapid growth of disproportions and polarisation both in the world economy as a whole and among the developing countries in particular. For example, whereas in 1950 the most advanced

group of developing nations (42 states representing a mere 14 per cent of the Third World population) generated 36 per cent of its combined GDP, by 1985 the same 42 countries, making up 16 per cent of the Third World population, produced as much as 58 per cent of the combined GDP. By contrast, the GDP share of the most backward group in the developing countries (37 states representing 60 per cent of the Third World's population) dropped over the same period from 32 to 16.5 per cent.

Such economic polarisation is compounded by unequal distribution (especially per capita) of natural resources. In some countries (as in Bangladesh, for example) the per capita area of arable land is not enough to feed the population, whereas in some other countries vast expanses of arable land remain uncultivated; certain countries, including some with a small area and small population, possess a tremendous wealth of mineral resources, whereas some other countries are virtually deprived of any natural wealth.

The bulk of minerals mined in the developing world is utilised by the industrialised nations, many of which do not have their own mineral resources.

In the past, most sources of mineral wealth in Asia, Africa and Latin America were owned or controlled by Western colonial companies and inequitable concession agreements were forced upon those colonies, but in the 1970s these natural resources and the property of many foreign corporations were nationalised in most of the developing countries. In response to the new situation, in the mid-1970s an international commission of economists headed by the Dutch scientist and Nobel Prize winner J. Tinbergen advanced the concept of 'common heritage of mankind'. According to his doctrine, our planet's natural resources belong to all the people on earth, regardless of whose territory they are located on. They must, therefore, be equally accessible to all. Countries which are in possession of certain natural resources must not take undue advantage of them at the expense of other countries by manipulating prices, regulating the volume of production and export, or by any other means.[4]

At first the concept of 'common heritage of mankind'

was contrasted to the principle of unconditional sovereignty of states over all their economic resources, including natural resources. But later the concept was extended to cover accumulated economic resources, whose distribution among nations is no less unequal than that of natural resources. At several international conferences the question was raised of redistributing the world's wealth and profits in accordance with each country's proportion in the world population.

In their practical activity, however, all governments do the exact opposite. Each country seeks to appropriate even those natural resources which were traditionally located outside its national boundaries and were freely used by all. In the late 1960s, for example, all coastal states, literally trying to get ahead of each other, began to declare 200-mile zones along their shores to be under their exclusive economic control, with a consequent ban on all economic activity by other countries within such zones, including fishing and development of minerals and oil deposits on the sea-bed. The universal imposition of 200-mile exclusive zone and a special regime for the continental shelf meant recognition of the coastal states' sovereign rights to prospecting and development of natural resources within those areas.

After the continental shelf has been divided up among the coastal states, the principle of 'common heritage of mankind' is today applied only to the resources of the world ocean beyond the 200-mile limit.

Furthermore, the practical realisation of this principle came up against the conflicting national interests of different countries, the economic policies of which are often incompatible and which possess vastly different technological and economic potentials. Nevertheless, under this principle each developing nation is entitled to pursue its own legitimate interests in the world ocean, which covers two-thirds of our planet and contains tremendous biological, mineral and energy resources.

After many years of preparatory work, the Third UN Conference on the Law of the Sea opened in 1982 an international convention for signing. The Convention regu-

lates the activity of states in utilising the world ocean's resources as 'common heritage of mankind'. It can come into force only after ratification by no less than 60 states.

Under the Convention, all land-locked states, including those in the Third World, are entitled to their share of ocean resources (regardless of who exactly develops and utilises them) on the basis of the right to 'common heritage of mankind'.

While the Convention has not yet come into legal force, the major Western corporations have already started large-scale development of the sea-bed mineral resources, arguing that the principle of 'common heritage of mankind' entitles them to free and unlimited acquisition of the tremendous natural wealth accumulated over billions of years of geological development. And no wonder—they can mine it with the help of powerful modern facilities, which the poor states so far cannot afford.

The developing countries give a different interpretation to this concept of 'the sea-bed as common heritage of mankind'. This common property must not be pillaged by those who at the moment have a financial and technological advantage, but must be controlled and managed by the International Sea Bed Authority, which would represent the whole of humanity and act in its interests—regardless of the selfish interests of individual countries and corporations—harmonising the conflicting interests by way of compromise solutions.

Recognition of the principle of 'common heritage of mankind' in relation to sea-bed resources—for all the contradictions and lack of clarity regarding the practical implementation of this principle—has created a precedent that can serve as a basis for spreading this principle to certain other prospective spheres of human economic activity so far untapped by any state: (1) the Antarctic, which is still considered *terra nullius*, but to which several states have already laid claim, including those whose costlines border on the waters washing this continent; (2) outer space and extraterrestrial bodies, including the Moon and other planets, whose economic exploitation could be reality

in the not so distant future; (3) the Earth's atmosphere, including its moisture and oxygen resources, whose excessive use by some countries could damage the interests of other countries and in the long run harm the whole of mankind, if the action of powerful modern or future technologies on the atmosphere for the purpose of inducing artificial rainfall, cause irreversible changes that could threaten life on Earth.

The principle of 'common heritage of mankind' from the moment of its inception began to affect the vital interests of all countries. A bitter struggle developed to fill this principle with a content that would serve the interests of each particular country and social group.

It becomes clear then that, on the one hand, development of the world economy, within which all countries and nations are becoming increasingly interdependent, requires a serious restructuring of the entire system of relations regulating its participants' economic activity, including the setting up of an appropriate organisational body. On the other hand, as long as the conflicting interests of different countries continue to pose a threat to the international community, only the strengthening of national sovereignty can to a certain extent ensure the interests of small and weak (economically and militarily) countries and protect them against any abuses of the principle of 'common heritage of mankind' by those who seek to gain unlimited access to that heritage and possess a sufficient technological and financial potential to do that.

## 3. Global Problems

A major factor determining the interdependence of all countries and peoples on our planet is the so-called global problems of mankind. Having emerged only in the latter half of this century, they have no analogies in the past, while their aggravation today has a tangible impact on the economic development of all countries by changing conventional conditions and posing new problems.

Global problems are those that are characterised by four major features: (1) the survival of mankind depends on

their solution; each of these problems, if allowed to escalate further, will threaten the very life of human civilisation; (2) these problems affect all countries and peoples of the world irrespective of their size, location, level of economic development, or socio-political order; (3) these problems can be solved only through the joint efforts of all nations; (4) all these problems are closely connected with one another, and the aggravation of any one of them will inevitably tell on all the other problems and, conversely, the solution of one of them makes it easier to solve the others.

Although all countries feel the increasing burden of these global problems, the greatest economic difficulties are felt in the developing countries. On the other hand, the trends manifesting themselves in the developing world today in turn serve to aggravate the global problems.

The first and most important global problem is the growing threat of annihilation in a nuclear world war. The nuclear arms race is today one of the main obstacles to economic development and to the solution of other global problems. The close relationship between economic development and disarmament is examined in Chapter 11. But it must be pointed out here that the solution of all other global problems depends on whether mankind is capable of averting a global nuclear war and whether it can stop squandering the Earth's vital resources on the senseless arms race.

Another global problem is how to restore the ecological balance, protect nature against the damaging effect of man's economic activity, and to preserve the human environment in a state essential to normal life. The constant poisoning of the atmosphere renders the air unfit to breathe, and the decreasing oxygen content of the atmosphere threatens to fall below the minimum necessary to sustain human life. Water pollution, especially in fresh-water rivers and lakes, not only gradually destroys fish resources, but makes the water unfit for human consumption, while its use in irrigation kills the crops or makes farm products a health hazard.

In an attempt to shift the financial burden of maintain-

ing the ecological balance onto the developing world, the capitalist West is transferring ecologically dangerous industries to Asia, Africa and Latin America, thus conducting a policy of 'ecological exploitation', which inflicts heavy economic losses on the nations of these continents and threaten to cause disease in millions of people, animals and plants, with lethal consequences in the future.

Desertification of previously fertile lands, increasingly frequent floods and droughts—all this signals serious ecological disruptions, the consequences of which cannot be prevented by strengthening state borders or by the isolated efforts of individual countries. The entire planet has become an arena of environmental protection. Furthermore, military conflicts often cause irreparable damage to the environment. Putting an end to the arms race is a major condition for concentrating the efforts and resources of the international community on the task of preventing global ecological disaster.

Unprecedented human propagation in Asia, Africa and Latin America has brought about the growth of the world's population—over a mere two and a half decades—from 2.5 billion to 5 billion. This situation raises the question of the need to set rational limits to the population growth, since livable space and vital resources on Earth are not unlimited.

Demographic processes directly affect economic pressure on the environment and socio-economic conditions in each country. Bearing these consequences in mind, governments in countries with a high population growth rate are introducing various family planning schemes to curb the unwanted growth rate.

Since the highest population growth rate is witnessed in the most backward countries, the demographic explosion has a direct bearing on the growth of hunger and poverty, unemployment and social injustice, and the lack of a most elementary system of social security.

The fundamental difference in the demographic processes taking place in the developing and developed countries explains the vast difference in the general trends and results of their economic activity. Despite the growing rate of farm

production, rapid industrialisation and obvious progress in public education in the developing world, the absolute number of hungry, malnourished, illiterate and unemployed people keeps increasing, and the gulf between the developing and developed countries in all per capita indicators keeps widening.

All these problems are related to the global problem of hunger and malnutrition. Although modern technology and farming methods are capable of providing enough food for our planet's entire population, famines claim an average 50 million lives a year, while another 700 million chronically malnourished people are afflicted by numerous diseases and die prematurely.

The growing global interdependence brings about a situation in which a farmer's ability in a developing country to feed his family throughout the year depends not so much on the results of his hard work as on the situation taking shape on the stock exchanges somewhere in London, New York or Tokyo and on world price fluctuations. The Third World's increasing dependence on the West enables the latter to use the 'food weapon' for political blackmail —interfering in the developing countries' internal affairs and forcing them to toe the West's political line.

Another global problem is the procurement of raw materials and fuel. And here too, worst affected are the developing countries. For the West, the 'energy crisis' is a thing of the past, and besides, at the time, the Western media had blown the issue out of all proportions. Nor does the West feel any shortage of raw materials. By contrast, for the developing countries the procurement of fuel and raw materials (except those that they specialise in) is becoming more and more difficult and expensive both for the economy as a whole and for each family. Much too often the cost of fuel needed to cook a meal exceeds the cost of the meal itself. In rural areas, families find themselves spending more and more time and effort on gathering firewood or whatever other fuel is available.

There is an acute need in the developing countries for new technologies that would help utilise traditional types of fuel more efficiently and also for tapping new sources

of energy, particularly those that cannot be exhausted and do not pollute or damage the environment (solar, tidal, wind power, etc.).

Atomic energy which has been widely used of late presents another global problem.

The number of global problems is increasing. They now include problems associated with the utilisation of the world ocean resources, space research, and with combatting AIDS, a new sinister phenomenon—first reported in mid-1981—whose future consequences for the human race so far cannot be estimated.

The first reaction of Western economists to the emergence of global problems was alarm and predictions of imminent Doomsday. Incidentally, one of the reasons for establishing the Club of Rome was the need to pool the intellectual resources of many countries in order to find effective solutions to global problems.

In the 1970s, a more optimistic view of the future came to the fore, according to which the keys to a happy future are in the hands of the present generation. Scientists came to the conclusion that man has sufficient material resources and enough awareness of the nature of global problems to be able to solve them and ward off the threat of annihilation. But if mankind is to succeed, the entire system of international relations will have to be revised, including relations between the industrialised West and developing countries.

All global problems emerged more or less simultaneously as a result of the same objective patterns of societal development that brought about the world's split into rich and poor nations. Therefore, the objective of eliminating this split, that is, overcoming the Third World's backwardness, forms an integral part of the entire complex of global problems to be solved (see Chapter 15).

Continued backwardness of the developing countries will inevitably aggravate all the global problems even further. And conversely, the more these global problems become aggravated, the worse off the developing countries will be. That is why efforts to resolve the global problems can be effective only if they are simultaneously directed at

overcoming the Third World's backwardness, at assisting its economic and social advance.

All this requires that a common worldwide strategy be developed to ensure man's survival and continued prosperity. The principal role in this should belong to the system of international organisations which have taken shape under the auspices of the United Nations and now embrace the whole world.

## 4. The New Role of International Organisations

The United Nations is the principal and most universal world organisation representing the whole of mankind, since all the countries of the world with just a few exceptions are members of it on an equal basis, irrespective of their size, level of development, political system, or any other considerations.* It is a universal organisation not only because it embraces nearly all the countries of the world, but because the problems it tackles are so vast and comprehensive. Its main objective is maintaining international peace and security.

As countries become more and more interdependent economically and the UN is joined by many young newly-liberated countries, the organisation devotes more and more attention to these countries' economic development and regulation of international economic relations. In 1974 and 1975, special General Assembly sessions were convened to discuss these problems, followed by intense work on general and special problems of international economic relations. In August-September 1987, the UN held an International Conference on Disarmament and Development.

The United Nations charts out strategies of world economic development for decades (the first such period was the 1960's; the second, the 1970's; the third, the 1980's; the forth, the 1990's) and coordinates the efforts of other international organisations dealing with major specialised areas of economic and social development.

* Countries that are not UN members include Switzerland, San Marino, Monaco, Liechtenstein, and Andorra.

In 1964, a United Nations Conference on Trade and Development (UNCTAD) was set up with its headquarters in Geneva, whose regular sessions discuss major problems of world economic development. Its principal goal is to encourage trade between countries with different levels of development and with different socio-economic systems. UNCTAD's role keeps growing with the steady internationalisation of world production and intensification of economic relations between states.

In 1967, the United Nations Industrial Development Organisation (UNIDO) was set up with its seat in Vienna, its task being to assist industrialisation in the developing world and expand international cooperation for this purpose in Asia, Africa and Latin America. At its 1975 General Conference in Lima, the UNIDO set the objective of increasing the developing countries' share in world industrial production to 25 per cent by the year 2000.

In 1945, the Food and Agriculture Organisation of the United Nations (FAO) was founded with its seat in Rome. Its tasks include: collecting and analysing information on questions of nutrition, food distribution and farm production, and assisting Third World countries in solving the food problems.

The oldest organisation in this group is the International Labour Organisation (ILO), which was founded in Geneva in 1919. In recent years it has devoted particular attention to problems of employment and industrial training—a problem of paramount importance for the developed and developing capitalist countries alike.

In 1946, the United Nations Educational, Scientific and Cultural Organisation (UNESCO) was founded in Paris to encourage interstate cooperation in these fields and assist Third World countries in developing public education at all levels, promoting science, protecting their cultural heritage, etc.

Other world organisations within the UN system include the United Nations Environmental Programme (UNEP), the International Maritime Organisation (IMO), the United Nations Development Programme (UNDP), and a number of others.

The members of all these world organisations enjoy equal rights and are entitled to one vote at all international forums, irrespective of a country's size or status in the world economy, and all members work in close cooperation to promote their common goals. Taken together, they constitute a system of international organisational forms which, given goodwill on the part of all their members, are able to mobilise and coordinate the efforts of all nations for the effective solution of man's global problems and to reorganise existing bilateral relations on a more equitable and mutually beneficial basis.

The effectiveness of these organisations is weakened by the fact that there is often a lack of unity among their members even on the most crucial issues. Not infrequently they turn into arenas of heated debates over conflicting interests, while resolutions often remain only on paper since they have no binding force.

A special place among international organisations belongs to the International Bank for Reconstruction and Development (IBRD) and the International Monetary Fund (IMF). These two organisations are not universal: they do not include certain states which are considered leaders in world economy. Unlike the UN, their administration system is based on unequal status of their member countries. The number of votes of each country depends on its financial subscription in IBRD or IMF.

The IBRD and IMF were established at the Bretton Woods Conference in 1944. By the early 1980's, over 40 per cent of the votes in the IBRD belonged to the five major Western powers: United States, Britain, West Germany, France, and Japan. The United States has 20.8 per cent of the votes, which gives it the exclusive right of veto, since any decision requires a four-fifths majority vote. By tradition, the IBRD's president must be a US national and its administration board is located in Washington, D.C.

Although the IBRD is an intergovernmental organisation, it is actually a joint-stock company, acting as an intermediary between mostly private financial sources and various borrowers. The IBRD extends credits from funds

accumulated by selling its bonds, about 30 per cent of which are bought by central banks and Western governments, while the rest is sold on the world's money markets. By the mid-1980's, the Bank's funds totalled $35 billion, up to 20 per cent of which had come from the OPEC countries. It gets its profits from the difference between the interest that it pays to its bond holders and the interest collected from its debtors. This difference usually exceeds three per cent of total credits.

But the IBRD's activities are not restricted to monetary and financial operations. Enlisting a large number of world-class experts, it elaborates national economic development plans for individual countries, influences the international strategy of economic development, and makes recommendations on certain global problems. Often, it takes advantage of certain poor countries' acute need for additional credits to interfere in their domestic affairs and encroach on their national sovereignty.

In 1960, under the IBRD's auspices, an International Development Association (IDA) was established to make loans on easy terms to the less developed countries, while four years earlier—in 1956—an International Finance Corporation (IFC) was set up to provide loans to private entrepreneurs in the developing countries. The IBRD was also instrumental in setting up regional development banks: the Asian Development Bank, the African Development Bank, and the Inter-American Development Bank.

The International Monetary Fund, founded in 1944, began to operate in 1947, extending short-term loans to help member countries maintain the balance of payments and thus ensure the stability of their currencies. As in the IBRD, most votes in the IMF belong to a handful of Western countries, with the United States having the sole right of veto. In the early 1970's, the IMF started emitting its own international means of payment, called Special Drawing Rights (SDR), which are distributed among IMF members in accordance with their quotas. Consequently, the lion's share of SDR went to the developed capitalist countries, whereas the developing countries, which are in

most dire need of funds and who make up 80 per cent of IMF members, got only 25 per cent of SDR.

IMF loans always come with strings attached: its conditions encroach upon the debtor countries' national sovereignty, interfering in their internal economic and social affairs.

The developing countries are insisting that the international monetary and financial system should be reorganised in line with the substantive changes in the international correlation of forces that have taken place since the 1944 Bretton Woods Conference, so that it would reflect the interests of most of its members.

*Questions for Self-examination*

—What is meant by the world economy?

—What are the main factors contributing to the growing internationalisation of economic activity?

—What is the essence of national economic sovereignty?

—What domains are today associated with the 'common heritage of mankind'?

—What are the top-priority global problems of today and their specific features?

—What are the main world agencies within the UN system that are concerned with the solution of global problems?

—What is the structure and what are the main functions of the IBRD and the IMF?

*Topics for Discussion*

—The role of national sovereignty in the interdependent world.

—The principle of 'common heritage of mankind' in terms of the concept of justice.

—The interrelationship of global problems.

CHAPTER 6

# The Scientific and Technological Revolution and the Transfer of Technology

The growing interdependence of the components of the world economy has turned the entire world into the site of the scientific and technological revolution. Owing to the highly effective communication and information exchange systems, scientific discoveries become available to the whole world community practically instantaneously no matter where exactly they were made. New technologies, too, quickly spread from country to country and it is not for long that the countries where they originated enjoy the monopoly.

Most of the young states in Asia, Africa and Latin America embarked on the path of independent development at a time when the scientific and technological revolution started to spread throughout the world. No matter whether or not they were prepared to participate in it or assimilate its results, they could not avoid its influence. The scientific and technological revolution created a new atmosphere in the relations between the rich and poor countries, opening up for backward societies unprecedented possibilities for progress, and at the same time, further complicating their position in the interdependent world economy.

The scientific and technological revolution also brought into existence new types of economic relations, categories and institutions that have become the object of economic studies.

This chapter considers the new economic problems that have been brought about by the scientific and technological revolution in the developed and developing countries and in the relations among them.

## 1. The Essence and Forms of Scientific and Technological Revolution

In all times, technological progress that transforms society's productive forces has served as the basis for economic advancement. In the past, technological progress was usually slow and far from all-embracing. Minor improvements in the instruments and methods of labour, accompanied by changes in the organisation of production, accumulated over the centuries; technologies, however, basically remained unchanged and manual labour was applied everywhere in agriculture, industry, construction and transportation. The main sources of energy were falling water (watermills) and wind (windmills), while heating depended on the use of firewood and other combustible material readily available in the vicinity of people's homes. The means of transportation were rowing- and sailboats (being small and slow, their security depended on weather) and animals—horses, camels, oxen, donkeys, etc. used for riding and carrying cargoes. But in most cases large distances were covered on foot and cargoes were carried by people on their heads or backs.

The first change in technology was signalled by the industrial revolution which swept England between the mid-18th century and the mid-19th century and then spread to other countries of Europe and to North America. It essentially consisted in the replacement of manual labour with machines, and of the energy of water and wind with the energy of steam; it also involved the development of transportation—railways and steamships.

This technological revolution caused far-reaching social and economic changes in each of the countries swept by it as well as in international economic relations. The use of machines in production provided technological foundations for the rise of capitalism which subordinated the entire social fabric of industrial countries to its power and created the world market. What ensued was the division of the world into the rich and poor countries. The division still goes on, stimulated by the development of new technologies and on-going technological progress.

The industrial revolution necessitated the introduction of science in production. Science acquired a new meaning as a component of the productive forces. This fostered its own development both in the applied and fundamental areas. As a result, machines became ever more sophisticated, their generations quickly replacing one another. Steam energy was transformed into electric energy and a new civilisation, that of the age of electricity, emerged. Electric power, setting machinery in motion, became the main energy basis of production; it made possible the development of essentially new methods of production whereby new materials were obtained (aluminum, new grades of steel); it changed people's everyday life. For communication they now relied on was telegraph, telephone, and then radio. Equally radical changes occurred in the information media.

Until recently, vast regions in Asia, Africa and even Latin America were still in the era of industrial revolution. Now that a new revolution, a scientific and technological one, is sweeping the world's industrial centres, those regions and their societies are transformed by what we call industrial revolution. The scientific and technological revolution (STR) implies a radical qualitative transformation of the productive forces caused by the evolution of science into the main factor of social production and a direct productive force.

The STR began in the mid-20th century, after the Second World War. It greatly accelerated scientific and technological progress and had a profound transforming effect on the social fabric and international economic relations.

As distinct from the practical application of science in production typical of the period after the industrial revolution, today, with the onset of the STR, science has come to determine the course of production and the development of new technologies, new products and whole new industries.

The STR covers the four main areas of technology that have an increasing impact on the makeup of modern civilisation—electronics, nuclear physics, synthetic chemistry and biotechnology.

Characteristic of the STR is the close interaction of various sciences and technologies, their simultaneous and combined use in production processes, and the interdependence of their development.

Progress in every science is supported by mathematics. The development and improvement of computers and the rapid replacement of one generation of computers by another made possible major breakthroughs in all areas of science, production and military art. For its part, progress in computer technology hinges on scientific and technological progress in industries creating new materials and sources of energy.

In production, the STR manifests itself in the following forms:

—transition from mechanised production processes to computer-controlled automated ones;

—broad application of robots and the spread of automated control systems;

—the development of the atomic industry that brought about a new type of power engineering and filled war arsenals with the means of mass annihilation capable of destroying life on our planet many times over and threaten the existence of Earth as a celestial body;

—a major change in the area of transportation with priority given to large passenger and cargo jets, large freighters and tankers, large trucks and vans for domestic and transcontinental use;

—a revolution in the mass media that has changed the people's vision of the outside world through the spread of transistor radio sets, TV sets, VCRs, etc.;

—expansion of synthetic chemical industries and the appearance of new products ranging from raw material for textile and light industries to the large variety of medicines, chemicals for agricultural applications, etc.;

—the development and practical application of biotechnology and the creation, on its basis, of microbiological industry.

All this leads to far-reaching changes in the economic structure.

Essential to each country is its scientific and technolog-

ical potential made up of a network of R&D offices and institutions, skilled scientific and technological personnel, facilities necessary to implement research findings, scientific and technological information systems and professional ties with research centres in other countries.

The correlation between sectors of the economy, which now incorporates fundamentally new types of production, is undergoing profound transformation.

The STR accelerates the renewal of plant in all industries and brings about innovation in technological processes. In electronics, for instance, there emerged the rapidly growing production of microprocessors. While in 1976 the number of microprocessors manufactured in the United States amounted to 2,000,000, in 1980 it grew to nearly 100,000,000. The first robots appeared in the United States in the mid 1960's. Today they are produced in developed Western countries and especially in Japan on a large-scale. The application of robots is creating a potential for a new qualitative change in the economy.

The situation in machine building, metal working, chemical and other industries is changing likewise. The uneven nature of the development of various industries has become far more pronounced. The priority development of the chemical industry has led to its far greater contribution to national economies.

Production has grown to be more capital intensive, with an accompanying increase in the cost of each job and in the capital-to-labour ratio (that is, the amount of capital investment per worker). All this boosts the productivity of labour and the output of both new and traditional products.

The STR has accelerated the economic growth rates throughout the world economy. The consumption of all types of raw material and energy has grown accordingly. Of late, however, technological progress has been accompanied by the effort to economise resources which leads to considerable reductions in the consumption of material and fuel per unit of finished product.

The STR has not ousted the traditional types of production and products that have always been necessary to

sustain people's life. However, the technologies and equipment used in traditional industries have changed greatly. For instance, modern bakeries are automated, with their output regulated by computer programmes and recipes recommended by scientists. There is little about them to remind of the bakeries of the recent past. The major economic proportions have changed likewise.

The increase in the productivity of social labour made it possible for a smaller number of workers in material production to provide means of subsistence to the whole population. The share of this area in the economy has decreased both in terms of white- and blue-collar workers and in terms of the percentage of the Gross Domestic Product it accounts for. The share of non-material production, the services, has increased. A rise has been registered in the overall educational level of the population, above all, the workers. The literacy rate has almost reached the ceiling, i.e. 100 per cent; schooling is provided to almost 100 per cent of the school-age children. One has to remember that all this concerns industrially developed countries swept by the scientific and technological revolution.

The above-described changes in production have led to changes in the structure of the consumption and distribution of personal incomes. More money is spent on goods and services other than basic ones. More funds are allocated to recreation, entertainment and tourism. This results in the expansion of the entertainment industry with its specific facilities and personnel.

The concept of post-industrial society reflects the changes that occurred in the makeup of society in developed countries under the impact of the STR. Post-industrial society is visualised as a technotronic society with its cultural, psychological, social and economic aspects determined by the impacts of technology and electronics, in particular computer technology and the mass media. One of the authors of this concept, the American economist D. Bell, believes that the distinctive feature of this society is the separation of management from property and the dominant role of technocrats—scientists, engineers and professionals who control production according to the rules that

take into account the peculiarities of the technological structure, which are the same in all social systems applying similar technologies[1]. Thus, he removes the problem of the rich and poor countries from the agenda.

Because the degree of automation of production is growing, the concept of post-industrial society predicts the gradual disappearance of the working class, with workers increasingly replaced by engineers and technicians at production enterprises (at some factories in science-intensive industries the worker-to-engineer ratio is already approaching 1:1) and by white-collar ones in all areas of non-material production, trade included.

Economic development is increasingly determined by the laws governing technological evolution rather than by the economic laws of capitalist reproduction as was the case in the era of industrial capitalism.

According to this vision, the society moulded by the STR is, first, a homogeneous civilisation with no division into socio-economic systems, into capitalism and socialism, and, second, a production mechanism free of the social and economic contradictions of the past and run on a scientific basis by skilled professionals.

## 2. Contradictions Inherent in the STR

Technology and engineering in themselves are socially neutral. The same machinery and tools are used for the same purposes in countries with different social and economic systems and different development levels—capitalist, socialist and developing countries. However, the ways of applying them and especially the mode of transition from one type of technology to another are closely linked to the social conditions of people's existence and activity.

The character of social and economic relations prevailing in society determines the rate of technological progress, the technology users' choice of definite equipment and machinery, the utilisation of the production potential and of production capacity. That is why machinery and equipment that may secure advantages in one country may only be used to disadvantage in another; likewise, machi-

nery that can do good to individual enterprises, boosting their profits, may prove undesirable as doing harm to the interests of society as a whole.

At the same time, the introduction (and especially the wide spread) of new technologies always calls for changes in the socio-economic structure of society. It may, therefore, either help resolve contradictions and overcome difficulties in the interests of the whole—at least the majority—of the population or it may exacerbate social and economic contradictions, bring about new problems and difficulties and cause damage to the interests of a considerable part of the population. Due to the unprecedentedly radical, far-reaching technological changes that occur over historically brief periods of time, the STR has a more considerable impact on the social and economic domains than technological progress that took place during the previous stages in the development of human society.

This impact manifests itself both in the social life of every nation involved, to one degree or another, in the STR, and in the sphere of international economic relations where, due to the difference in the scope of the STR in different countries, the gaps between the technological development levels of economically interconnected countries are becoming ever more pronounced.

In the developed capitalist countries, the STR fostered the emergence of consumer society, where living standards are primarily determined by people's access to such durable goods as cars, refrigerators, radio sets, stereophonic recording systems, colour TV sets, VCRs, expensive recreation, amusement and sports facilities, including personal swimming pools or yachts, rather than by the availability of such traditional consumer goods as foodstuffs, clothing or decent houses.

The service life of such goods, comparable to the length of active human life, the desire to get hold of them as early in one's life as possible and to prolong the time of their service, combined with the lack of savings necessary to acquire them, stimulated the unprecedented development of the consumer credit system. The latter created new types of relationships between consumption and production, as

well as between the working people—consumers—and entrepreneurs in various areas of production, trade and banking. The need to make regular installment payments for the acquired durables ties the buyers to their jobs much stronger than was the case in the past, when they had to maintain far more modest living standards.

At the same time, the workers, whose economic position requires, to a greater extent than ever before, stability and a guaranteed future, are the hardest hit by the STR, the way it is carried out in the developed capitalist countries. The introduction of new capital-intensive and labour-saving technologies, the replacement of workers by robots and other components of automatic production systems make the workers' position highly unstable and contribute to technological unemployment. The computerisation of clerical work results in massive dismissals. Unemployment becomes stable, and its soaring rate does not drop even in the short periods of revival in business activity.

The employment problem is also complicated by the structural reorganisation of the economy under the influence of the STR. The point is that the capital-labour ratio in new industries is usually much higher than in old ones; moreover, the skill and experience acquired in traditional industries often prove inapplicable in new ones. As a result, the paradoxical situation arises when growing unemployment is accompanied by acute shortages of high-skilled workers needed in certain areas. Changes in the social situation also account for the shortage of low-skilled, low-paid manual workers accompanied by unemployment among people of a much higher status. This, among other things, explains the Western drive to have low-skilled workers imported, for a time, from Asia, Africa and Latin America.

The STR enhances competition both among the enterprises within an industry and among industries. This competition has unfavourable consequencies for both wage-earners and clerical workers.

The growing insecurity in terms of jobs and living standards, combined with increased stress and strain caused by the application of computers and other technologies that

demand extreme concentration and leave no room for relaxation essential to any living organism, brings about professional deseases, excessive human tear-and-wear and the spread of such social evils as alcoholism, drug-addiction and crime, including terrorism and violence.

In the absence of appropriate social control and management, technical progress causes increasing damage to the environment within and beyond national borders (for instance, to the world ocean). This is fraught with a global ecological disaster that threatens to destroy the human race.

Already at this point, many industries, especially chemical industry, have a pernicious effect on the air man breathes, the water he drinks, the food he eats, impairing his health and causing illnesses and early deaths.

The social consequences of the STR call for society's greater responsibility in regulating technological progress and protecting the working people from the damage caused by the drive of certain enterprises and entrepreneurs to harvest greater profit through recklessly introducing new technologies.

The STR enhances antagonisms in the area of international economic relations, especially those brought about by the actual inequality of the countries participating in the world capitalist division of labour. In the context of the STR, the gap between the poor and the rich countries which emerged in the course of industrial revolution and was constantly broadened by scientific and technological progress, threatens to cause an explosion at any time.

The uneven nature of the development of rich countries has become more obvious, and economic conflicts between individual states and groups of states, as well as between TNCs, have grown more acute.

The world trade has registered a rise in the share of science-intensive commodities whose producers and consumers live in developed countries. This leads to the intensification of trade and, consequently, all other economic ties between rich countries and to a decline in the exchange with developing countries.

There emerged increasingly important 'scientific' com-

modities—licenses, patents, know-how, technical specifications, trade marks, etc. Ever more intensive is also the exchange of technical specialists. There appeared new areas of entrepreneurship—engineering, consultative services rendered by scientific, technological and other firms.

A special area of activity is formed by international scientific and technological ties, encompassing international scientific forums, exchanges of scientific literature, technological cooperation, including the setting up of international scientific centres, regional and international institutes and laboratories, joint research, space exploration included.

In the mid-1980s, the effective use of the achievements of the STR made it possible for Japan to come to the fore in the world economy. It literally flooded the world market with its science-intensive products, successfully competing with US producers even on their domestic market.

Scientific and technological successes of Japan secured for it strong positions in the world economy. The top Japanese entrepreneurs accumulated an enormous share of social wealth created in various countries of the world. Japanese names were first entered on the list of 100 richest people of the world in 1987. Before that, characteristic of Japan was the limited size of personal fortunes.

The militarisation of the STR, that is, the top priority application of the achievements of world science and technology for military purposes is fraught with the gravest dangers for entire humanity. For the first time in its history, humanity has created means of self-destruction. Their amount and forms are such that humanity may be brought to self-destruction. Chapter 11 of this book is devoted to the economic problems involved in militarisation. Here, we shall confine ourselves to stressing that science can be both good and evil, depending on who uses it and what for. In the contemporary world, based as it is on inequality, exploitation, opposed interests and conflicts, technological progress serves both good and evil.

The controversial nature of the STR accounts for its different impact on the developing countries, on the forms of their economic relations with the world centres of scientific and technological progress and on the distribution of

the results of the application of the achievements of the STR in Asia, Africa and Latin America.

## 3. The Third World and the STR

Introduced from the outside, the STR in the Third World has not resulted from its internal evolution. The developing countries mostly consume the results of new technology rather than create it. Besides, if in the developed nations the industrial and scientific and technological revolutions were separated by 150 to 200 years, in most today's developing countries these two historical processes have coincided and intermingled, thus creating additional problems and contradictions.

Computers and nuclear engineering are being introduced in societies where a buffalo-driven wooden plough is still widely used. Meanwhile, an ordinary electric motor or a tractor (which appeared in the developed countries nearly a century ago) are still a rarity there and even sometimes cause a radical change in productive forces.

There is still a wide gap between the potentialities of the modern science and technology and what the developing societies actually get from using them. In fact, new technologies may prove efficient in solving all pressing social and economic problems stifling the developing countries. The Green Revolution project under which different achievements in science and technology have been introduced in many developing countries has shown that there are real prospects to boost grain production and put an end to malnutrition and famine in the countries with an ever growing populations.

Moreover, the developing countries can make use of the already existing benefits of the STR without having to traverse the road the developed nations had once passed through to achieve the present technological level, thus saving time and means. That is why the Third World is developing under most favourable conditions unlike other countries in the earlier period. For example, a wide use of new antibiotics, vaccines and other medicines and first aid basics promoted by the World Health Organisation

has led to a quick fall in the death-rate among children, including infants: in 1965-1984, in the countries with a low per capita income, such as India and China, the infant mortality rate (the deaths of children under one year of age) dropped from 125 to 72 per thousand, and the death rate of children between one and four—from 19 to 9, i.e., it reduced almost by half. Life expectance grew from 49 to 60 years for men, and from 51 to 61 for women. It took Western countries more than a century to achieve these results, whereas the developing nations needed only 20 years.

Omitting intermediary architectural forms, young nations pass over from building mudhouses which are still a common sight in African villages immediately to majestic high-rises made of concrete and glass following the most up-to-date architectural designs.

Once the producers of primitive (although in some cases highly artistic) earthenware and homespun cloths, the African, Asian and Latin American countries now manufacture colour TVs, computers and other things according to new technologies—the process which was not triggered off by these countries' own evolution of productive forces.

All this proves that the developing countries desperately need the latest achievements in science and technology. This was admitted by the world community at two representative international UN conferences on science and technology for development held in 1963 and 1979. In 1971 the UN worked out a World Plan of Action for the Application of Science and Technology to Development.[2]

The developing countries, especially the bigger ones, make drastic steps to build up their national scientific and technological potential, so that to industrialise and be better self-sufficient in the latest means of production.

Considerable achievements have been made in training staff, including research workers. A special role in this is played by universities, most of which were set up after the former colonies won their independence. Oriented primarily towards training a highly qualified staff, the universities also operate as major research centres dealing

with new sciences such as nuclear engineering, elementary particles physics, biochemistry, cell biology, genetics, telecommunication, etc.

Without using the latest findings in science and technology, the Third World countries will not be able to overcome their backwardness, to combat poverty and other social plights and to protect their economic interests on the world market and make their goods competitive.

The developing nations have found themselves in a situation when they must solve two problems simultaneously: first, to achieve a higher efficiency of production, to come closer to the world standards and to lower the per unit cost of production which calls for the latest technology; and second, to ensure full employment or, at least, to decrease its level, and provide opportunities for poorer people to increase their incomes which implies the use of labour-consuming technologies mainly dependent on manual labour.

In choosing the necessary technology, they have to make decisions as follows: in determining priority industries within the whole economy—whether to invest in new industries, including capital-intensive ones with high-production enterprises and a limited staff, or in the traditional industries with a wide choice of technologies from low-productive handtools to automatic production lines; and in deciding upon priority spheres within each particular industry.

What makes the choice of necessary technology difficult is not the variety of opposing problems seeking solution, but the contraversial situation arising from conflicting interests. The national interests of the Third World require both higher efficiency of social production and fuller employment. The employers, who are mainly responsible for choosing technologies, for their part, seek higher profits and lower spendings on per unit of production. As a result, in these countries, with the ever-growing surplus of labour resources and smaller wages, the choice is often made in favour of capital-intensive technologies ensuring higher profits for the employers, rather than the labour-consuming ones which may help create more jobs.

That is why the STR in the as yet backward developing

societies has led to a higher level of unemployment and consequently to the impoverishment of broad sectors of the population and the concentration of national wealth with the elite.

The STR in the developed capitalist countries has also led to the ever increasing social inequality between the rich high society and the poorer sectors of the population. But this painful process has been taking place within a uniform modern society, unlike in the developing countries where a dualistic society has taken shape, consisting of two different sectors—modern and traditional. The abyss separating these two sectors becomes ever much deeper, and the social inequality within each sector itself is also growing. Conflicts between the present and the past sometimes take extreme forms of stormy social upheavals which slow down the social progress and hamper the STR.

The involvement of developing countries in the STR calls for enormous economic resources, primarily those which are particularly lacking—capital in the form of hard currency for importing new technology, and a highly qualified technical personnel. This aggravates the contradiction between consumption and accumulation even more.

With the expanding STR, the position of developing countries in the international economic relations dramatically changes. Dependent as they are, these countries fall into yet another type of dependence—technological. Hence, the STR involving the emergence of new industries in the Third World has contradictory consequences. On the one hand, the manufactured goods are no longer imported, but produced inside. Some countries not only begin to produce the up-to-date means of production, but also to export them, including to developed countries. On the other hand, their economies become ever more dependent on the regular influx of Western technological novelties, spare parts, materials, patents, licences and know-how which are usually the property of Western countries and the TNCs.

The economies of developing countries become vulnerable to changes in conditions under which they are allowed to produce export-oriented goods. Together with new technology, increasing private capital investments from abroad

are channeled to these countries, thus complicating relations between them and the investors (see Chapter 9).

So, the STR, which even in Western countries means a qualitative shift to the new frontiers, compels developing nations to skip the entire intermediary stages to rapidly approach these frontiers. In the existing system of international economic and political relations, this necessity makes the Western industrial and research centres resort to ever stronger levers of influence on the developing countries lying in the outskirts of the world capitalist economic system. Today, these levers are sometimes even more powerful than the methods employed by the colonialists in the past.

The STR is responsible for an absolutely new form of international economic relations—a transfer of technology —which starts to play an increasingly important role in developing countries.

In the earlier periods of human history, technological and scientific innovations could easily cross national borders. Only with the arrival of the STR, a world-wide system of the transfer of technology sets in as a specific form of relations between states, on the one hand, and the private corporations, the owners of the latest achievements, on the other.

## 4. The Transfer of Technology

In an effort to update their economies, developing countries mainly rely on the machinery and technologies transferred to them by the industrialised developed states and then adjusted to the specific local conditions in which the national economies operate.

The transfer of technology is a broad notion which implies that developing nations not only bring in the advanced equipment and know-how from abroad, but also adopt new work ethics, including managerial skills and marketing, which provide for the efficient use of the transferred machinery and technology. What they also need is the trained personnel and technical staff and access to the world market. 'If we do not have access to the market, then we do

not need machinery,' say the Third World economists, thinking rightly that in the STR epoch, their countries' economies should have all the elements of the economic mechanism characteristic of the epoch.

The developing countries are in permanent need of the latest technologies, thus playing in hand of the owners of these technologies who take advantage of this situation and derive high profits. To buy patents, licences, trade marks and to invite foreign experts, the developing countries have to pay Western corporations an ever increasing part of their hard currency receipts.

New technology is mainly acquired through commercial channels on a bilateral basis from private firms, mostly TNCs. In the developing countries this technology goes to state-owned enterprises, private firms (the representatives of the local capital) and the local branches of the TNCs.

Transferring new technology to state-owned enterprises and private firms, the TNCs put higher prices on all elements of the technology, thus securing high profits. Besides that, the agreements on the transfer of technology contain, as a rule, some provisions restricting the transferees' (buyers') rights to use the technology to their own discretion. Under these restrictions, the transferees cannot introduce changes in the purchased technology even if this is necessary because of the specific climatic, economic or any other conditions; or re-transfer it to other firms and enterprises; or to export goods produced on the basis of this technology (in case they are allowed, then only in certain quantities and to certain markets).

Accepting these terms, the developing countries cannot proceed along the road of progress independently. They are obliged to regularly renew purchases from the same TNC from which the technology was originally bought.

Quite often they are compelled to buy the technology which does not meet all their requirements, damages nature and depends on imported raw and subsidiary materials and spare parts.

TNCs prefer package deals offering, besides the new technology proper, also drafts, technical specifications, know-how and experts' services, even if the buyer needs

only certain of its elements. In the early 1980s, the developing countries spent a total $200,000,000,000 a year on technology, which makes 13 per cent of their GNP.

When TNCs transfer technology to their own branches in the developing countries—and through this channel 75-85 per cent of the exported technology gets into the Third World—these branches, as a rule, do not share it with either state-owned enterprises or private firms, and thus occupy a priviledged place in the national economies.

In this way the TNC branches are placed in a privileged position within the economy of developing countries as compared with the state-owned enterprises or private firms pertaining to local capital.

Within the TNC structure, the transfer of technology turns into a major means of the redistribution of profits, derived by the TNC branches, to the benefit of mother companies. In the late 1960s, the payments for licences, patents and know-how received by the US machine-building TNCs from their branches amounted to nearly 60 per cent of the latter's total payments, whereas in the early 1980s the figure reached 90 per cent.

Thus, TNCs influence the formation of the economic structure in developing countries, pursuing the main goal —to get maximal profits within the entire TNC mechanism where branches appear only as its component parts. That is why any particular branch is oriented not towards the priority needs of the developing country it is located in, but towards the interests of TNCs, the major part of whose production mechanism is located outside that country.

At the TNC branches equipped with new technology, the hired workers learn new skills and trades. But sometimes they are unable to apply their knowledge outside these branches. As a result, new technology does not get to other spheres of national economies and the trained workers mostly tend to stay with foreign firms, not only because of higher wages, but also because they will hardly find employment anywhere else. That is why the exploitation of workers on such enterprises is very high, with TNCs prac-

ticing a longer working week and more intensive rhythm of work. That is why, instead of bringing relief, new technology exhausts the workers making them liable to professional diseases, including those which are caused by psychological and nervous strains and by contact with hazardous substances (in chemical and other industries). Offering new technology to developing countries, TNCs often ignore labour safety and nature protection.

The transfer of technology on the government level takes the form of technical assistance which does not directly pursue commercial goals. This kind of assistance is mainly carried out in education, the training of national personnel and modernising of various social aspects. Young people from Asian, African and Latin American countries enter colleges and universities of the leading Western countries. On the other hand, Western experts and advisors are sent to work in the local educational establishments and help modernise the governmental apparatuses, certain branches in economy and social sphere, particularly medicine.

Although the transfer of technology through governmental channels is offered on preferential terms and sometimes even free, the lenders of technology finally receive high incomes. This creates favourable conditions for foreign private capital to expand its export to the developing countries, including the export of science-intensive goods.

One of the serious problems facing developing countries, which has been brought about by the transfer of technology, is a 'brain-drain', or as it is called now, a 'reverse transfer of technology'. Western countries and their private firms attract talented specialists from developing countries, thus robbing these countries of the staff, on whose education they spent quite a lot, and deriving additional profits from their talent. Only during the first 20 years of 'the reverse transfer of technology', 143,000 high-quality specialists left developing countries for the US. Their training cost $5 bln, but their intellectual inputs over 20 years have brought in $63 bln. By 1987, the estimated additional incomes the US got from 'stealing brains' from the Third World exceeded this figure three times over.

Many international organisations, including the non-

government ones and those within the UN, help promote new technology.

The chief directions of the international technical assistance embrace: training of national personnel; assistance in solving economic and social problems through the use of new scientific and technical methods; expertise and consultations; the construction of pilot enterprises; evaluation of natural and economic resources; economic planning and introduction of the latest methods of management.

The international scientific and technical assistance is rendered along the following lines: offering foreign scholarships for students from the Third World; organising regular training courses, including vocational training and occasional short-term seminars; sending specialists to help in different branches of science and economy; providing the necessary equipment and teaching aids; helping research problems vital for the Third World and find solutions to them.

The STR has an ever increasing influence on the social life in poor nations, primarily on the workers' position in emerging industries. The introduction of new technology aggravates labour relations, the way it does in the developed countries. For more details on these problems read the following chapter.

*Questions for Self-examination*

—What is the scientific and technological revolution (STR)?

—What changes in the economic structure does the STR cause?

—What is the essence of the concept of post-industrial societies?

—What contradictions arise in society as a result of scientific and technological progress?

—How does this progress affect employment in capitalist countries?

—How does scientific and technological progress tell upon the environment?

—What forms does the STR take in the Third World?

—In what way does scientific and technological progress affect traditional industries in developing countries?

—What place do developing countries occupy in the world capitalist economic system in the context of the STR?

—Through what channels does new technology get to the Third World?

*Topics for Discussion*

—Traditions and new developments in Asian and African countries.

—The goals of scientific and technological progress in developing countries.

CHAPTER 7

# New Technology and Labour

As we are approaching the year 2000, there are a number of critical challenges confronting many countries of the World, irrespective of their economic and political system or the stage of their development. There challenges derive mainly from the problems related to the fast depletion of non-renewable resources and in some cases the irrevocable destruction of renewable resources, the acceleration of technological change and its impact on employment, and the stiff international trade competition which requires dramatic improvements in productivity performance.

All the parties concerned are trying to deal with these problems within their own situation and defined set of priorities. This Chapter is focusing on developments in the Western countries, and more specifically on the problems and prospects concerning new technology and employment, and the management of human resources including workers' participation in the process of decision-making.

## 1. The Impact of New Technology on Employment

Most published reports indicate that the impact upon employment of micro-electronic technology in the early 1990's will continue to be gradual rather than sudden, because, with a few exceptions, the feared high degree of automation did not materialise. On the other hand, some of the new jobs created by the new technology did not last long, and the ranks of the unemployed were joined recently by many redundant technicians and engineers of the troubled Silicon Valley industries in the United States. In balance, we may conclude from international experiences

that in the absence of appropriate policies by the parties concerned, the further application of new technology, cannot but aggravate the already critical unemployment situation, contribute to more industrial conflict, and offset the positive contribution that micro-electronic applications can make to increased productivity[1].

The success of riding the wave of the technological revolution will depend on the capacity to remove or reduce substantially the various constraints on its successful adaptation, and especially those related to technological unemployment. However, the employment problems associated with the extensive use of new technology, have become too great and complex for industry and organised labour to solve alone. They require the introduction of some non-conventional policies and the coordinated efforts of all interested parties under the direction of the government. Government sponsored measures may include statutory or negotiated severance pay, arrangements for joint consultations, and more effective manpower planning and training programmes.

In the final analysis, there is no longer a question whether to adopt the new technology, but how to adopt it—with the minimum adverse effects possible. More specifically, international surveys indicate that the success of adaptation will continue to depend to a considerable extent on the capacity of the parties concerned to overcome some of the following important economic, structural, and social constraints.

**a. The Economic Constraints**

An overall examination of the historical data shows high productivity growth is normally associated with high output growth, good trading performance, and, in consequence, steady or rising employment. It would be wrong to conclude, however, that rapid technological change and its associated productivity growth will by itself be sufficient to set us on the road to high output, low unit costs, and high employment.

There are important preconditions for the successful translation of new technology into high rates of growth,

exports, and employment. The preconditions include the ability to reduce the adverse effects of new technology on employment and to secure the cooperation of all parties concerned in improving productivity.

The latter depends on the former, because no organised labour group will participate in any effort to improve productivity unless due consideration is given to the possible redundancies and layoffs.

Historical evidence indicates that poor labour-management relations and workers' dissatisfaction have resulted in substantial losses of production through increased work stoppages and conflict.

Finally, what international experiences seem to indicate is that solutions to the problem of economic constraints upon the adaptation of new technology are to be found in a combination of coordinated policies, including those related to incomes, hours of work, and labour relations and productivity.

### b. The Structural Constraints

Structural constraints may include a shortage of the key skills required for the new technology as well as a failure to adapt management and union practices to the requirements of innovation.

The addition to the difficulties management may encounter in its effort to persuade the share holders of a company to invest in a risky innovation, it has also to overcome a number of other problems, including resistance from middle management (who may fear that innovations will jeopardise their established positions), restrictive practices on the part of some trade unions, and a critical shortage of key electronics engineers and technicians.

Success in overcoming these problems does not depend only on labour-management cooperation; it also depends on the ability of those employees whose job requirements will change to acquire new skills through training or retraining—and in the shortest possible time.

The success of Japanese industries has been attributed to a combination of factors conducive to smooth and quick

change: guaranteed job security, a high level of educational attainment among employees (which makes workers highly adaptable and readily retrainable), consultation rights, and generally good labour-management relations.

West European management practices and organisation are not as conducive to successful adaptation as those of Japan, Nevertheless, they are more conducive to success than those of Canada and the United States.

Although the shortage of key skills is only one of the major structural constraints on successful adaptation to the new technology, the magnitude of this problem is such that it requires the special attention of management and of those responsible for manpower policy in the government. The skills in short supply are those of electronic process engineers, application engineers, electronic test technicians, electronic maintenance and service technicians, software skills, and control theorists.

### c. The Social Constraints

The social constraints on successful adaptation to the new technology derive from the fears and reactions of the parties mainly concerned: labour and management.

The problems of reconciling the differences between labour and management in the introduction of new technology should not be underestimated. In essence the positions of labour and management have remained the same since the early days of automation and scientific management. Fears of foreign competition and economic uncertainty cause management to resist vigorously any form of intervention in anything it considers to be a managerial prerogative. On the other hand, there are legitimate fears on the part of organised labour over the adverse effects of new technology on working conditions, including substantial reductions in the employment of certain skills, occupations, and social groups.

According to a number of studies the most important employment effect on any general occupation will be on office workers. There will also be restrictions on the number of manual workers, particularly unskilled workers.

The social group that will be affected most will be women, because most of the secretarial jobs to be adversely affected are held by female employees.

The other social groups to be affected are very young workers and those over sixty years old—the former because their lack of experience may deprive them of the opportunity of competing on equal terms with the more experienced older workers, and the latter because it's too late for them to be trained in the new skills.

Technological innovations also have a profound effect on the nature of work and the working environment, which may include changes in individual jobs that have important implications for the rest of an organisation.

Discontent over the adverse effects of microelectronics on the quality of working life should not be underestimated.

A number of possible health hazards in prolonged VDU operation are cited, including headaches, eyestrain, backaches, and the possibility of exposure to electromagnetic radiation.

'Intelligent terminals' used for the surveillance and monitoring of workers while at work have adverse psychological effects, and they may result in damaging reactions.

Finally, experience in handling these problems suggests that a consultative and participatory strategy involving the people concerned in and affected by the changes will have the greatest likelihood of success.

Despite increasing conflicts in industry over the implications of the new technology for job security, there have been cases where through timely negotiations with management, agreements have been reached concerning the application of technological change. These agreements have somewhat eased the harmful social effects of automation by means of retraining schemes, relocation allowances, plant-wide seniority advance notice, severance pay and other programmes; and as a side-effect these agreements have contributed to the long-term improvement of labour-management relations.

However, collective agreements which satisfactorily cover the adverse effects of automation are rare. An examina-

tion of recent developments reveals that Canadian and the United States' industrial relations are in crisis partly because the application of new technology has an adverse effect on trade union membership.

As the late Walter Reuther (President of VAW-United Auto-Workers of America) explained in 1965, trade unions cannot hope to solve the employment problems associated with technological change 'through collective bargaining alone, and without Government intervention'[2].

In Europe where there is more government intervention, but also more advanced social legislation to complement collective agreements, some problems related to technological change are solved through government action regulating notice, severance pay, retraining and re-location schemes and early retirement. Appropriate legislation and complementary collective agreements in most West European countries are designed to ensure that workers' representatives have an opportunity to influence management decisions to reduce the labour force. In some cases advance notice must be given to trade unions or workers' representatives through works' councils and other bodies who are then able to discuss the issues involved with management and to take other appropriate action. In other cases consultation or negotiation with the trade union or workers' representatives has been mandatory either by legislation or by collective agreement.

In February 1975, the Council of the European Communities adopted a directive governing collective dismissals which member States were obliged to implement with appropriate legislative and administrative action. (Appropriate legislation has now been introduced in all member States of the European Economic Community). The Directive and the legislation define collective dismissals as those carried out by an employer for reasons which have nothing to do with the workers involved, and affecting a specified number of persons. This number varies with the size of the establishment and the period of time over which the dismissals extend.

Furthermore, an employer must consult with workers' representatives to reach an agreement on ways to avoid

collective dismissals. He must also notify authorities of any such plans within 30 days (renewable in certain circumstances) during which time no dismissals may take place. The postponement is to be used to avoid or reduce the redundancies or to limit their consequences.

Although public policies designed to limit the scale of labour force reductions are generally accepted as important in Western Europe, measures to mitigate hardship suffered by those losing their jobs are treated as equally important. The measures adopted often include longer periods of notice and special redundancy allowances payable by the employer under legislation and collective agreements.

In all the existing or proposed measures concerning technological redundancies and lay-offs in Western Europe, manpower planning and training constitute an important component of government policy. Manpower planning begins with monitoring local and sectoral vacancies and dismissals with the cooperation and participation of all parties. When redundancies as well as immediate and potential requirements are properly assessed and projected, the entire government policy infrastructure moves to prepare and implement short- and long-term education and training. Special attention is given to changing occupational patterns in order to make long-term plans.

On the other hand, some considerable pressures have developed in recent years in Western Europe and North America for more flexibility in the labour market. This has happened in the belief that more managerial freedom for manpower choices in the face of technological challenges, will contribute to productivity and economic growth, and in the long-run to more employment stability. However, recent comparative research on corporate performance in various industrialised countries has shown a positive correlation between the rate of productivity growth and the degree of employment stability. That is, the stronger the employment security provisions (via legislation or collective agreements), the higher the productivity.

Recent experiences indicate also the need for caution when considering severance pay policies because excessive redundancy payments may have long-term adverse effects

on economic and social conditions. A 1985 British Broadcasting Corporation investigation revealed that redundancy payments of the last few years in Britain had exceeded 6 billion pounds (about $10 billion), and that many of the severance pay settlements were far above the statutory requirements. Secret amounts of redundancy payments were being used by employers as an inducement of employees to accept the loss of their job without a fuss and without any arrangements for appropriate retraining and redeployment.

The redundancy payments scheme was introduced in Britain by a previous Labour government with the best intentions and on the basis of the West European trends, but in recent years it apparently eased the way for a substantial run-down of some industries through the abuse of the system, and it has not helped the redundant workers of those industries to find another job.

The impact of excessive redundancy payments contributes to the unemployment crisis because they cost the economy a great deal, not only in compensation for the redundant workers, but also in long-term unemployment and welfare benefits. According to a number of British concerned observers, excessive redundancy payments have contributed to the run-down of manufacturing industries by reducing the availability of funds for modernisation and further employment. One should not lose sight also of the traumatic effect on individual workers of losing their jobs, because a lot of these people—and especially those in advanced ages—will probably never work again (at least in anything comparable to what they were doing before). After the initial euphoria of having and spending a substantial redundancy payment, and when the unemployment benefits are also gone, in many cases there is nothing in the horizon but permanent unemployment and the welfare cheque. In these circumstances, people lose confidence in themselves and become desponded. The consequences of that kind of situation to the future of society as a whole are only too obvious.

What seems to be most desirable in the face of the economic and social challenges of new technology is a com-

bined set of labour market policies, which include some reasonable statutory arrangements for redundancies and lay-offs, as well as effective manpower planning and training programmes.

On balance, we may safely conclude that the impact upon employment of microelectronic technology in the early 1990's, will be gradual rather than revolutionary. Nevertheless, we may also conclude that in the absence of appropriate government and business policies, it cannot but aggravate the already critical unemployment situation, contribute to further industrial conflict, and offset the positive contributions that microelectronic applications can make to increased productivity.

The big question therefore, is whether we have the infrastructure of government policy and provision to deal with the employment and manpower problems that have already occurred, or those that may occur in the future in certain areas of industry and the services.

The lesson that we may derive from the conclusions of international experiences, is that the success of riding the waves of microelectronic revolution (or evolution), for the benefit of raising the rate of growth at home and a larger share of the trade in manufactures abroad, will depend on the capacity of the parties concerned (labour, management, and government) to remove or reduce substantially the economic, structural, and social constraints upon the successful adaptation of the new technology in the early 1990's. And this requires innovative approaches to the management of human resources including workers' participation.

## 2. New Trends in the Management of Human Resources

The general consensus reached at recent EAPM (European Associations of Personnel Management) congresses was that the complexity of the developing problems in and outside the place of work, and especially those associated with the impact of new technology and the pressures for increased productivity, would affect industrial relations and

personnel management accordingly. They would, therefore, create additional challenges for personnel or HR (human resources) managers—challenges which they must be prepared to meet with new ideas and tenacious resolution. Furthermore, all those who were still searching for solutions to the problem of conflict and the lack of adequate labour-management cooperation for the solution of problems of mutual concern, could learn from other countries' practices in workers' participation in management and perhaps adapt them to their own situation.

Thus, the need is there for the development of a progressive personnel of HR function within the corporate structure, and especially for its possible contribution to the success of effective participative management. The importance therefore of the HR manager's role is only too obvious. Personnel or HR managers and their associations (with the assistance of the academic world), could conduct their own independent studies and influence occasional impending legislation and/or collective agreements concerning worker participation, help to develop appropriate education and training programmes, and contribute personally to the improvement of the working environment and the chances for closer and more effective labour-management cooperation. The effort, however, must begin with the improvement of the HR managers' own capabilities and professional development.

The accelerating pace of technological change has brought about in its wake a number of related labour problems, some of which have to be resolved at the workplace, but in relation to the macro-economic level. The effort to solve these problems, therefore, requires the combined policy-making and planning within the enterprise and the economy as a whole. The demands thus, on the HR management function, have increased and the role of the personnel or HR manager has become more important than ever before.

The success of HR managers in meeting the requirements of their new functions depends not only on their background and training but, also, on the trust they enjoy both from employees' representatives and the board of

company directors. It may be said, therefore, that the role of HR managers has become multi-dimensional, because they have to be innovators and mediators as well as executives. This diversity in their role, however, requires continuous professional upgrading, considerable executive freedom, and the maintenance of good personal relations with trade union leaders.

The indications are that the new concepts concerning the role of the HR function in developing participative management systems would help HR managers to work toward the prevention as well as the correction of labour problems, and thus contribute more effectively to the reduction of the damage that these problems can cause to the performance of the enterprise, and the economy as a whole. There is general agreement among personnel associations that the emphasis in the future should be on preventing the occurrence of discontent and conflict, rather than correcting the problems once they happen. Corrective action is usually taken after the conflict has caused some damage, which may also increase considerably if it takes a long time to resolve it. On the other hand, if a series of preventive measures are taken, the chance of conflict and damage are significantly reduced.

There is little doubt that established mutualistic approaches or the cooperative attitudes of both labour and management representatives facilitate the introduction and, to a considerable extent, the success of participative management of human resources.

In drawing attention to important differences between West European and North American industrial relations, M. Derber has emphasised the fact that participatory systems became possible in certain West European countries, because of the mutualistic relations that have developed between labour and management in these countries, especially since the end of the Second World War.[8]

It is significant, perhaps, that the parties themselves not only promote cooperation in their publications, but even, more important, that their policies reflect the kind of moderation and mutual acceptance, which are indispensable factors to participation and the reduction of conflict.

Although the established mutualistic approaches contribute to favourable attitudes toward the principle of participation, the degree of employers' support for a particular form of participation depends on the extent they perceive it as a benefit or a loss to their interests. The employers in West Germany, for instance, and more specifically the Confederation of German Employers' Association, have always supported all forms of co-determination below the Supervisory Board level and cooperation with the trade unions and the Government in advisory and decision-making bodies entrusted with the task of contributing to the solution of social and economic problems.

The German trade unions, for instance, are very well organised and financially independent. They have chosen the path to cooperation for the solution of problems of mutual concern, and have been making reasonable wage demands which relate to productivity and the capacity of the economy to pay. The strike is rarely used as a means of achieving the desired ends. Instead, they may make use of the extensive arbitration services provided by the Government, and the continuous dialogue that exists with management inside and outside the enterprise. It is interesting to note for instance that the metal workers went on strike in 1984 over their demand for a 35-hour week, but they did accept the compromise of 38.5-hour week awarded by a board of arbitration.

Some important lessons from the Japanese experience are of interest too. There is considerable agreement among researchers that one of the most important contributory factors to the outstanding economic success of Japan is that of the high labour productivity achieved in Japanese industries, which has given this country a competitive edge over its Western competitors. However, there is considerable disagreement in the arguments used to explain Japan's high rates of productivity and consequent phenomenal growth. Some have suggested for instance, that the Japanese economic success can be attributed to the higher levels of automation as well as to lower wages paid than those that prevail among Japan's Western competitors. The comparative analysis of international statistics, how-

ever, shows that real wages of recent years in Japan are greater than in a number of Western countries, including those in the United Kingdom. Comparative studies have shown also that where plant of a comparable technological standard is used in more than one country, the Japanese consistently achieve higher productivity[4].

Other writers have contended that the answer to the economic success of Japan is to be found not only in the comparable low labour costs, but also in the work-ethic and loyalty of the Japanese workers, as well as in the absence of strong trade unions and industrial conflict. The truth of the matter, however, is that loyalty in Japan is a 'two-way traffic'. Workers' loyalty toward their firm has come about as a result of managements' loyalty toward their employees in the form of life-long or near life-long employment, promotion by seniority, social egalitarianism at the place of work, and a variety of company financed benefits.

The record indicates that the mutual loyalty and co-operation achieved between Japanese labour and management have become major contributory factors to the success of the innovations introduced in the management of human and material resources, which have resulted in increased productivity and improved product quality. It is interesting to note that one of the most important of those innovations, the QC's (Quality Circles), have originated in the United States, yet they have become much more successful and widespread in Japan because, as the President of the Nissan Motor Company, Takashi Ishihara has explained, the QC was not adopted by Japanese management merely for improving productivity and product quality, but for promoting involvement and full participation of workers[5].

In considering, however, the virtues of Japanese industrial relations and management of human resources, it would be remiss not to mention that contrary to popular belief, the change of attitudes among the parties concerned, which has undoubtedly contributed to present day labour-management cooperation and its positive results, did not come about either easily or quickly after the end of the

Second World War. In fact, Japanese labour-management relations went through a period of considerable trial and tribulation in the postwar years, and especially in the Recession period of the 1950's, when the Japanese industry in general, and the auto industry in particular, experienced mass lay-offs and threatened redundancies. The auto workers' unions resisted the mass lay-offs with unprecedented militancy and large-scale strikes, which in some cases lasted for more than three months, and which when finally settled, left deep scars on both workers and companies[6]. The scars of the confrontation healed, years later, in the 1960's with the realisation by both parties, that mutual loyalty, security and cooperation were indispensable contributory factors to the auto industries expansion and the successful competitiveness of Japanese products in the international market.

Many other trade unions were also involved in militant strike action and street demonstrations in the recession periods of the early 1950's and the middle 1970's. In those two periods, Japan experienced considerable industrial conflict as a result of the trade unions' efforts not only to forestall redundancies, but to raise wages through the so-called Shunto (Spring offensives). The Spring offensives became in effect a sort of whipsawing collective bargaining tactic, in which initial gains made by a strong union federation in a promising industry were followed up by a schedule of demands for higher wages in other industries culminating in a wide pattern of similar settlements[7]. It is falacious therefore to assume, that the Japanese trade unions, which are known to be organised mainly at the company level are weak organisations, and that in consequence, they are unable or unwilling to engage in militant action, comparable to that of Western trade unions. The strength and effectiveness of trade unions is not or should not only be measured by the economic damage they can inflict on uncompromising employers, but also on their capacity to influence policy decisions at the industry and national levels, which affect, positively, not only the well-being of their members but that of society as a whole.

The answer to the Japanese phenomenon perhaps lies in the fact that labour and management in Japan have

realised that irrespective of the element of consensus inherent in their culture, the complexities of a modern industrial society will always create causes of conflict; but if economic success is to continue, they must take advantage of their traditions and talent of adaptation, in order to develop further the preconditions for the reduction of conflict and the improvement of productivity performance, which can be achieved through the strengthening and expansion of workers' participation. The long practiced labour-management consultation at the company level of managerial aspects of working conditions, including technological change, work rules and worker grievances, work force training and development, welfare facilities, utilisation of leisure, and so on, may be 'a prelude to formal industrial democracy at the industry or national level'[8]. It should be noted also that the further development of workers' participation in Japan has become an important issue, because it is expected to improve working conditions in the small and medium size enterprises, where the working environment is still very poor compared to conditions in the big corporations.

## 3. Workers' Participation in Management at the Lower Level

Many developed countries, as well as some developing ones, have established or are planning to introduce workers' indirect participation schemes by law or collective agreements, but the degree and scope of participation and the type of institutions that have developed vary from country to country and, in some cases, from industry to industry. However, in spite of this variation, certain overriding institutional and functional similarities can be discerned, at least in most of the developed and in some of the developing countries. These similarities are to be found especially in the lower level institutions of indirect worker participation and influence that deal with the three main aspects of labour-management cooperation—information, consultation, and approval.

The most common institutions of indirect participation and labour-management cooperation that have developed

at the enterprise level, irrespective of the form of its ownership, are usually called 'works' councils' or 'joint-consultation committees', and in some cases (mainly in the socialist countries) 'trade union committees'. The works' councils and similar institutions are, in fact, either workers' representative teams or labour-management bodies where problems of mutual concern are raised and discussed with the purpose of either reaching a consensus or 'influencing' decisions. Thus the composition of these bodies varies; for example, in Belgium, Denmark, Ireland, Luxembourg, Norway, Switzerland, Sweden, and Japan they comprise representatives of employees and management; the former are elected and the latter appointed. On the other hand, in Austria, the Netherlands, and the Federal Republic of Germany, for instance, the works' councils are composed only of elected workers' representatives. The size of council membership varies, but its composition tends to be proportional to the number of workers employed in each particular section of the enterprise[9].

The range of subjects that the works' councils and similar bodies may deal with varies according to differences in relevant legislation and labour-management agreements, but in most cases it covers the following:

1. *Production,* including current targets in relation to output of previous periods and in relation to current orders or plans, new methods and techniques, technological innovations, equipment and materials, poor work and wastage, customer complaints and public relations, reports on workers' suggestions, and proposed innovations.

2. *Finance and business,* including survey and explanation of the enterprise's financial statements, examination of future orders or plans, examination of the competitive position of the enterprise within the particular industry and in foreign markets, and the possible effects of the existing economic situation.

3. *Personnel,* including manpower planning and training, top management changes, prospective hirings, redundancies, turnover and absenteeism, and intraenterprise communication.

4. *Welfare,* including safety and health, heating and

ventilation, canteens and restaurants, washrooms, vacation plans and educational leave, transportation facilities, housing benevolent funds, sports activities, and entertainment[10].

The right of workers' representatives to influence decisions in all such matters varies from country to country and, in some cases, from industry to industry, but certain patterns are, nevertheless, detectable. In most cases, for instance, the works' councils have the right to receive information on some or even on most of the listed subject matters. However, most works' councils and similar bodies have no power of joint decision-making and are thus confined to some form of 'cooperation'. 'In practice, this means the right to protest against decisions, to make suggestions or to be consulted'[11].

The degree of influence that workers can exert on management through these bodies can be considerable, but it depends on a number of factors. It depends, for instance, on the strength of the trade union that stands behind the workers' representatives, the quality of labour-management relations and cooperation in a particular enterprise, and the ability of the workers' representatives to process received information into effective arguments against management.

## 4. Workers' Participation in the Public Sector

Some forms of workers' participation in the management of the steadily growing public sector of the economy, which includes government agencies, nationalised industrial and commercial enterprises, and public utilities, exist in a great many of both the developed and developing countries. These countries are Argentina, Australia, Austria, Belgium, Egypt, France, Ghana, India, Ireland, Israel, Italy, Mali, Mexico, Nigeria, Norway, Peru, Sri Lanka, Sweden, Switzerland, Syria, Tanzania, the United Kingdom, and Venezuela.

The ratio of workers' representatives in management organs of the described enterprises varies from country to country and even from enterprise to enterprise depending on specific government policy and legislation, as well as

on the capability of workers' representatives to perform their role. Depending on the same factors, workers' representatives may be electees of their constituencies or management appointees.

In Western Europe, political sophistication, trade union strength, and high educational standards have contributed to the development of relatively effective participation of workers in state-owned enterprises. Nevertheless, as previously noted, effectiveness in this case depends on the form the participation assumes, as well as on other factors, but not on the fact that it takes place in public enterprises or government agencies. In many cases, especially after the attempts to provide for satisfactory representation have failed, participation consists merely of the appointment of a few trade union officials to management boards or joint consultation committees, with their agendas typically confined to improvements in the working environment and labour-management relations. This practice explains why industrial conflict in the public sector in Britain, for instance, has remained as grave as in the private sector in that country.

On the other hand, the more satisfactory experience of participation in the private sector in Sweden paved the way to more satisfactory arrangements for participation in that country's public sector. The new arrangements were introduced in March 1978 through an agreement on joint decision-making reached between the Swedish government and the group of unions representing public and state employees. The agreement, however, makes it clear that the emphasis of co-determination is to be on local affairs and that, in the ultimate analysis, co-determination is a question of improving the ability of the employee to influence his own work situation through his own initiative and via his trade union organisation[12].

It implies, therefore, a combination of direct and indirect participation with emphasis on direct involvement. More specifically, the agreement covers six areas of personnel policy:

—Rationalisation and administrative development.

—Planning.

—Personnel mobility (recruitment, transfers, etc.).

—Personnel advancement (education, professional training, preparation for specific assignments).

—Work supervision.

—Personnel information and trade union information.

The following are examples of the rights granted to the workers by the agreement:

—The right to hire, at the employer's expense, experts to assist trade union organisations in technical matters, like data processing.

—The right of employees to receive special training needed for implementation of rationalisation programmes.

—The right of personal participation in the drafting of budget requests by public authorities.

—The qualified right to receive special instruction within the regular education system during paid working hours.

—The right to conclude local agreements concerning experimentation with new forms of management.

—The right of the trade unions to convene membership meeting during paid working hours.

—The right to distribute trade union information through the medium of the agency newsletter.

It will take a few more years to evaluate the impact of the new agreement in the Swedish public sector on the improvement of labour-management relations and of the work environment. But even prior to that, the agreement is expected to serve as a model for the public sector of other countries, in the same way that the German model has served for the private sector. In view of the rights granted, it would seem to be of value for the interested parties in different countries with mixed economies to inform themselves of the progress made in Sweden so as to be in a position to adapt the Swedish experience to their own particular conditions.

Trade union movement in the developing countries has not accumulated a very long experience as in the West. And the workers are not so well organised that they could produce effective and real influence on social consequences of technological progress, introduction of new technology. But this problem is gaining importance in these countries

together with introduction of the same production methods that are typical of the advanced countries.

Certain problems of the state sector were dealt with in the preceding chapters. The importance of the economic and social policy of the state in the developing countries and activity of the state sector in connection with new technology calls for more detailed review of the role of this sector in the economic activity of the state and for the evaluation of the scale, results and importance of governmental intervention into economic life in the developing countries. This is done in the following chapter.

*Questions for Self-examination*

—How does new technology influence employment?

—What are the economic constraints for adaptation of the society to new technology in the Western countries?

— How are the contacts between representatives of workers, employers and governments established in the Western countries in connection with social consequences of the use of new technology?

—How do workers in the Western countries participate in the management?

—What are the differences in this practice between Western Europe, North America and Japan?

*Topics for Discussion*

—Relevance of Western trade union movement for the developing countries.

—Scientific and technological progress: challenge for workers, employers and government leaders of the developing countries.

CHAPTER 8

# The Public Sector in the Economy of Developing Countries

In post-war years the state began to play an ever increasing role in the economy of Asian, African and Latin American countries, and its intervention in economic affairs and its influence on every aspect of social reproduction was increasing, too. This objective process is a way of resolving the main contradiction confronted by the newly-free countries. Under colonialism the chief motive force in the liberation struggle was the contradiction between imperialist oppression and the striving of the enslaved peoples for national independence. But after the collapse of the colonial system, a new contradiction emerged—the one between immense economic backwardnes and the remaining economic dependence of the newly-free countries on the centres of capitalism, on the one hand, and the vital need to stpeed up their economic growth and ensure economic independence, on the other. An active part played by the state in economic activities and the establishment of the public sector were among the main conditions for meeting that need.

In historical terms the public sector is a young socio-economic organism with its own difficulties and contradictions. It is to be established with due regard for the local conditions, and its functioning is to be balanced with the use of other social forms of economic activity. Attempts to exaggerate the role of this sector in the economy and to press forward excessively with its development, while the required social, political and economic conditions are not yet ripe, may have grave economic consequences. But, for all that, the public sector substantially influences the effort to overcome economic backwardness and achieve greater

independence, to put an end to inequality in the international capitalist division of labour and to gain success in progressive social changes.

## 1. The Concept of the Public Sector

The state intervenes in economic activity in two main ways: first, by participating directly in reproduction and, second, by influencing social reproduction indirectly. In the former case the state acts as the owner of factories and other enterprises in the area of material production, and also in the services not associated with production. In the latter case the state uses various methods of regulating the activities of private employers.

The public sector emerges when the state takes part in social reproduction. It is based on state ownership of the means of production and distribution. The public sector includes also, apart from state property, the results of the use of state power in the economy, namely the material resources received by the state when the social product is redistributed. This is, above all, the money added to the state budget when the material values created outside the public sector and used to meet the needs of the state-run part of the economy are redistributed, as well as non-production assets used by the state to meet definite social needs. These assets are used for the growth of those sections of the infrastructure which ensure the functioning of industry (power engineering, transport and communications) and the reproduction of work force (education, housing, medical care).

The public sector includes all the assets and funds used for reproduction. This does not include the state funds to be spent on meeting the social needs not associated with reproduction, such as military or administrative expenditures. Nor does it include the means channelled by the state, directly or indirectly, temporarily or permanently, into the private sector by way of subsidies or loans, through a policy of prices, the sale of state-run factories, etc. At the same time the assets of the public sector include the borrowings received from internal and external sources, which

are used for reproduction. Accordingly, the funds spent on repayment of loans and credits and on the interest on them are not part of these assets.

So, the public sector in the broad sense of the word may be defined as a sphere of the national economy functioning on the basis of state ownership and state appropriation and the use of a part of the national income for social production.

It is logical to ask therefore: why is the public sector necessary? Cannot private capital cope with the tasks of economic development singlehanded? The experience of the developing countries shows that the local capital is incapable of building a modern national economy unless it receives extensive support from the state. This occurs primarily because the national bourgeoisie, as a rule, does not have the funds required for building large projects, nor is it experienced in making wide use of joint-stock forms of centralising capital. National businessmen in developing countries are unprepared for full-scale activity in industry, because they lack know-how and experience in organising and managing large-scale production. Due to its specific social and economic makeup the national bourgeoisie in most cases prefers to invest in trade, the services and in the purchase of real estate, that is, where it does not have to risk heavy investments and the inputs are quickly repaid.

But this approach cannot modernise the economic structure and stimulate a growth of productive forces. Hence the objective need to build a public sector as, in fact, the only force capable of mobilising substantial material and financial resources and providing other conditions for a more rapid economic growth and effective measures to achieve economic independence.

Public sectors as a form of economic management exist in developing and in industrialised capitalist countries, but there is a cardinal difference between them. In the industrialised capitalist world big monopoly capital and the financial oligarchy make use of the public sector and various forms of state regulation in order to adapt private monopoly property to the present development level of the productive forces, which calls for the need for a balanced

regulation of social production. The chief goal pursued by monopoly capital in this process is to build up its economic might and consolidate its political positions by pooling the strength of the state and the monopolies, and to solve frequent economic difficulties at the expense of the working people. Herein is the reactionary essence of state-monopoly regulation and the functioning of the public sector in the centres of capitalism.

The public sector in developing countries is aimed to accomplish the key tasks of economic progress and ensure national independence. It not only stimulates economic growth as such, but also protects national economic interests and serves as a barrier to the excessive pressure exerted by powerful foreign corporations. By contrast with the centres of capitalism, in which state-monopoly capitalism was inseparable from colonialism and now is the motive force of neocolonialism, the public sector in developing countries is an important instrument in the efforts to remove the aftermaths of colonialism and combat the neocolonialist intentions of international capital. All this gives us reason to regard the public sector as a progressive phenomenon.

In its social and class nature the public sector in the majority of developing countries (with the exception of those which have opted for socialism) expresses the interests of the national bourgeoisie. The latter is objectively interested in weakening the dominating positions of foreign capital, in expanding the domestic market and building up the national economy. In this case its interests coincide with common national interests. However, the approach of the national bourgeoisie to the public sector is fairly contradictory. It backs it up so long as it helps it to attain its goals, which are: to build a national industry, to gain control of the domestic market, and to strengthen capitalist relations in production. But in everything else the public sector, even if it is capitalist, is regarded by the national bourgeoisie as undesirable and even dangerous. So, it tends to confine its activity within strict limits and subordinate it to its narrow class interests.

This tendency is most pronounced in the attitude of big

capital which goes all out to destroy public property and discredit the state as an entrepreneur while deriving vast profits from nationalised industrial enterprises. What is the motive behind this conduct? The point is that the development of the state-capitalist sector, in fact, undermines the 'sacred' principle of private property and reveals that the bourgeoisie is redundant in the system of modern social production.

The activity of the public sector directly results in the emergence of a most privileged and politically influential section of the bourgeoisie. It takes shape as the state is widening the scope of its financial and economic activity and the economic organisations and industrial enterprises within this sector increase in number, and also while its business and other ties with private capital, both national and foreign, are expanding. High posts in the state machinery and extensive contacts with the business world enable some officials to grow rich quite rapidly. The money they gain by buying up the shares of private companies or state securities are then turned into capital, and their owners—state officials—become simultaneously capitalist entrepreneurs and bourgeois rentiers living on high interest paying bonds.

As large groups of officials in the state machinery go bourgeois, there emerges a stratum of ruling classes bound up by their sources of profit with both economic sectors—the state and private capitalist ones. This stratum has special mentality and a corresponding approach to social and economic development. The ideal for this group of the bourgeoisie is a mixed private and state economy opening up broad opportunities for enrichment before the new privileged strata of society.

Naturally, the public sector has possibilities not only for capitalist development. It may become also an economic foundation for going over to non-capitalist development. Such a possibility emerges when the democratic-minded part of the population tips the balance substantially in its favour. In these conditions the character of the public sector changes, and it ceases to be a form of state capitalism and becomes the property of all people.

## 2. How the Public Sector is Shaped

The public sector is established either through nationalisation or due to the new state organisation. The former path—nationalisation—is the transition of the right to own an industrial enterprise or groups of enterprises or a whole industry to a sovereign state. The object of nationalisation may be the property owned by private capital, foreign and local, and the property belonging to foreign countries.

In most countries of Asia and Africa the starting point in the shaping of public sector was the transfer to national governments of the property that had once belonged to colonial administrations. The lands formerly owned by the colonial authorities, transport and communications, utilities, irrigation facilities, companies developing natural resources—this is mainly the property of former colonial powers that is nationalised. In some cases it was property of little value and in others, profitable plantations, factories and banks. In Indonesia the Dutch colonial administration owned railways, rubber plantations, tin and lead ore mines, and gold and silver fields; in Sudan, the British colonial authorities owned cotton plantations; in Uganda and Tanganyika, ginneries and coffee processing factories, and foreign trade was also under their control. National governments came to possess also large bank assets. For instance, India's sterling assets in 1947 equalled $3.4 billion.[1]

The nationalisation of crediting and financial institutions and banks of issue has been of great significance. The nationalisation of the monetary and financial system has concentrated the financial resources in the hands of nascent states, while nationalised state banks have become an instrument of economic regulation and control on the part of the state. The establishment of the public sector in the economies of newly-free countries on the basis of the property formerly owned by colonial administrations is the initial stage characteristic of all developing countries.

But far more essential for the formation of the public sector is the nationalisation of foreign private enterprises

in the main sectors of the economy. After the Second World War this process assumed wide proportions. According to UN data, between 1960 and 1976 there were 1,369 acts of nationalisation in the developing countries. More than half of them took place in Africa. Petroleum and mining industries were affected most (about one-quarter). National state-run enterprises assumed a leading position in the production of oil and copper, and their share in the production of bauxites and iron ore has notably increased.

The governments of developing countries carry out nationalisation for various motives. More often than not it is a wish to eliminate, or at least to weaken, the positions of foreign monopolies in national economies. Another purpose is to concentrate economic levers in the hands of the state and establish state control over the key enterprises or major industries of the economy. In these cases often not only foreign but also local private enterprises are nationalised. There are instances when nationalisation is a method of subsidising the national bourgeoisie and is carried out for providing favourable conditions for some or other groups of entrepreneurs. It shifts onto the state's shoulders the burden of financing the saving of unprofitable enterprises from ruin and the construction of costly projects in the infrastructure. For instance, power stations were nationalised in Mexico and Morocco to cut the price of electricity for private entrepreneurs, and in India airlines were nationalised to be re-equipped at the expense of the state.

The governments of developing countries, as experience has shown, pursue not only economic goals by conducting nationalisation and building the public sector on that basis. There also are social and political goals stemming from the character of political power and the tasks of a national liberation revolution in a country. This shows that the significance of nationalisation is more than just restructuring the relations of property. In the hands of the state nationalisation becomes an effective means of both anti-imperialist struggle and the class struggle at home. This process is most developed in the socialist-oriented counrties effecting radical social and economic reforms for the benefit of

the popular masses, the countries which have set out to limit and then abolish capitalist relations of production.

The methods of nationalisation may be different. Nationalisation may be complete or partial, with compensation or without it, gradual or carried out at one go. The question of paying compensations is a most acute one. The developing countries are defending their right to nationalise foreign property without paying a compensation, on the grounds that the profit already gained by the monopolies exceeded the investments many times over. International capital insists on compensation for the nationalised property at its market price. Besides, the monopolies often threaten to apply economic and other sanctions. In most cases the developing countries are compelled to make a compromise and to agree to pay some compensation.

Nationalisation is not an end in itself. Its every act should be economically justified, except for cases of sabotage committed by foreign monopolies. Poorly prepared, nationalisation may adversely affect the economy of a country by shutting down the flow of foreign capital and competent experts from abroad. To prepare this process means to provide conditions required for an unimpeded work of the enterprises that are to be transfered to the state, namely, regular deliveries of raw materials and spare parts for industry, markets for the sale of the manufactured goods, and appropriate managerial and technical personnel.

The time factor is very important for successful nationalisation. The decline of production at nationalised enterprises should not be long, so that the very idea of nationalisation would not be discredited. This should be taken into account above all by the countries where the level of the productive forces is low, African countries in particular. In this case the alienation of foreign property is often gradual, and transition measures are used in the process. Among these is partial nationalisation carried out by turning private foreign companies into mixed ones.

Viewing nationalisation generally, as a way of forming the public sector, it should be stressed that this process, im-

portant as it is, cannot help to build the modern multi-sectoral economy. Changes in the form of ownership of already existing enterprises and other economic units do not alter the structure of the economy itself, though they provide definite preconditions for such alterations. Most important in this context is new construction done with the use of capital investment by the state. This is the second path of establishing the public sector.

The state in developing countries acts as a big investor. In the post-war years it ensured a rise in spending on economic development primarily by redistributing the national income through the state budget. An ever greater part of the GDP accounted for state domestic investment. Thus, in the 1960s through 1970s this indicator went up from 24 to 45 per cent in the Philippines, from 29 to 36 per cent in Panama, from 35 to 42 per cent in Singapore, from 30 to 48 per cent in Mexico, from 23 to 47 per cent in India, and from 45 to 58 per cent in Bangladesh. This policy brought about an important dual change: first, it raised the role played by the state in the accumulation of national incomes (in many developing countries the share of the state in total accumulations increased to 40 and even 50 per cent); and second, this tendency largely influenced the growth in the share of accumulation in the national incomes of developing countries (it rose from 14 to 25 per cent within the 1950-1979 period).

Characteristically, the state can channel investment to enterprises and industries which are more important for the national economy. In doing so, it is guided not only by considerations of profit, but above all by the need to alter the proportions of social production.

The state concentrates its investment in manufacturing industries (including heavy industry) and in the infrastructure, and employs it for the development of agricultural regions by introducing new crops meant for export.

At the same time the character of capital investment made by the state and the way it is distributed differ from country to country in the developing world.

In the countries that have set out to build socialism, all or a greater part of state allocations are in the public

sector, which corresponds to the general strategy of their development. In other countries the size of these expenditures is determined by the policy pursued with regard to the private sector and the role played by the latter in economic growth. The greater the share and influence of private capital, the more the state allocates for its direct financial support, and the less it spends on new public construction activity. Often the state prefers financing big private entrepreneurs. African countries, such as Algeria, Tanzania, Angola, and Ethiopia, exemplify the former direction, while the latter one is followed by major Latin American countries, such as Argentina, Mexico and Brazil, where a network of state-run organisations invest heavily in private companies. State funds are offered at the disposal of private capital on a broad scale in India. Up to two-thirds of all credits received by private companies in India are granted by the state. It is interesting to note that many Indian companies receive credits from the state on far easier terms than the enterprises in the public sector.

## 3. The Public Sector in the Economy

The public sector is among the most important factors determining the economic growth of countries in Asia, Africa and Latin America. Its activities are one of the main stimuli of industrialisation, the development of the production infrastructure, modernisation of farming, and progress in science and technology. The public sector occupies strong positions in many key industries of the developing world.

The public sector has an important part to play in the extractive industry. After the foreign capitalist property in oil production and mining was nationalised and then modernised in developing countries, their state-run enterprises have become the largest world producers and exporters of mineral raw materials. For instance, the share of state oil corporations in the total oil output in the OPEC countries shot up from 2 per cent in 1970 to 80 per cent in the early 1980's.[2]

The participation of the state in the development of the extractive industry has made it possible to expand prospecting, put in place new capacities for extracting raw materials, and increase their processing. For instance, in India and Mexico large-scale prospecting conducted by state-run oil companies has resulted in the discovery of large oil deposits, thus increasing the self-sufficiency of the Indian economy in oil, while Mexico has become one of the world's largest oil exporters. About 100 national state-run oil companies operate in the developing world today. They perform the entire cycle of operations, from prospecting to the sale of oil and oil products. Large state-run petrochemical plants have been built in a number of Arab states. Even though the situation on the oil market, which has changed in the past few years, seriously affects the extractive industries of many developing countries, the positions of state organisations in these industries remain strong.

The state plays a fairly substantial role in many sections of the manufacturing industry. In the mid-1980's the state-run enterprises in India accounted for about four-fifths of all steel, all oil products and coal, equipment for the extractive industry, roughly a half of chemical fertilisers and many other manufactured goods. In Egypt the public sector produces all pig iron and about three quarters of steel and rolled metal, in Bangladesh and Pakistan the state-run enterprises occupy major positions in industry, as well as in power engineering, transport, communications, and banking.

The public sector prevails in the economy of socialism-oriented countries. In Algeria it accounts for 80 per cent of industrial and 60 per cent of agricultural output, and controls banking, insurance and foreign trade. In Syria it accounts for 95 per cent of all industrial output and includes railway and air transport, banks and insurance companies, and over a half of foreign trade. In Congo the public sector controls the production of electricity, ore mines, farms and plantations. In Tanzania the entire finance and banking system, over a half of industrial production, and a large portion of foreign trade are in the hands of the state.

The rising role of the state in the economy speeds up the growth rate of productive forces, causes changes in the character of social relations. The rise and growth of the public sector stimulates changes in the social and class makeup of societies in the Third World in terms of the increase in the size of the working class and greater influence of the working people. In a number of countries a modern working class emerges precisely because state-run industrial enterprises are built there. This is followed not only by the increase in the number of workers, but also in their better organisation and class awareness, which makes them more active in social and political life.

The expansion of the public sector helps to raise the living standards of the working people. The enterprises in this sector are often model ones as regards the length of the working day, annual leaves, payment for overtime work, labour safety standards, and social security. Using its funds, this sector meets to a great extent the social and cultural needs of factory and office workers, and improves their housing conditions and health protection. The average level of wages and salaries, social insurance and pensions is higher in the public sector than at private enterprises.

The state's intervention in economic activities substantially influences the conditions of farmers as well. The growth of irrigation systems, the construction of roads and power stations, the crediting of farms by the state, the organised purchase of their produce and other measures to boost agriculture are ousting all kinds of middlemen, usurers and others who sponge on farmers. The activities of the state help big landowners to adopt more up-to-date methods of farming and thus to abandon the working-off practice, sharecropping and other obsolete ways of using work force. Technical and economic reforms conducted by the public sector, such as introduction of advanced agro-technical methods and technologies of farming, are often combined with measures to limit and then abolish altogether big land ownership, thus improving the economic conditions of the rural labourers, making them more active socially.

Another important aspect in the activities of the state

is provision of greater possibilities for scientific and technological progress by increasing state allocations for building a national scientific and technological base. It has been estimated that two-thirds of the expenditures on scientific and technological progress in developing countries is financed by the state, and in the more advanced countries of the Third World, such as India, Brazil, Mexico, Algeria, and Turkey this figure of state financing reaches 90 per cent. This is possible because state-run enterprises have a possibility to buy modern equipment on a broader scale and use higher technologies, which is something private companies cannot do. The use of state sources of financing gives one access to the achievements of scientific and technological progress and speeds up national development.

### 4. State-Run Enterprises and Their Problems

One of the gravest problems here is how to make the public sector efficient and its enterprises profitable. Though many state-run enterprises are highly efficient, more often than not they are unprofitable, or their profitability is lower than that of private, especially foreign, ones. It would be wrong, of course, to judge about the public sector and its efficiency merely by the profit gained. One is to consider its all-round effect on production, consumption, the circulation sphere, and social activities in a country. The contribution of the public sector to social and economic progress is measured both by quantitative and qualitative indicators; the growth of industrial output, changes in the economic makeup, modernisation of farming and other sections of the economy, increased employment, and greater currency receipts.

At the same time, refusal to regard profit as the only sign of efficiency of state-run enterprises does not mean that the funds invested in the public sector should not be repaid. The sector's uninterrupted and efficient functioning implies its capability to reproduce in larger scales, gain profit and ensure accumulation on this basis. Its profit should not be smaller than in the private sector. Otherwise the weight of the public sector in the economy would be

reduced. The state can, of course, by using taxation, crediting and other measures, pump savings from other sectors of the economy into the public sector. But, as the pumping out increases, such possibilities will be narrowed down, while a low accumulation level at state-run enterprises will ultimately bring about a drop in the country's economic growth rate.

The relatively lower returns on state investment, as compared with those on private one, is accounted for by several objective factors, primarily by the specifics of the economic branch pattern. The state channels its investment mainly in the development of the infrastructure and in the fundamental sectors of the economy and heavy industry which require substantial imputs and a long time before their construction is completed and they reach the projected capacity. This factor lowers the rate of returns on state investment. But this is not all. It often happens that after nationalisation highly profitable enterprises become unprofitable. There are also cases when private and state-run factories produce similar goods in one country, the former is profitable, while the latter is not.

Among the most general causes of that phenomenon one can name, first, the fact that the production capacities of state-run enterprises are often utilised by not more than 40 per cent, which is often a result of miscalculations in the economic policy, when part of the capacities stand idle, while the goods they are to produce are imported; raw materials and semi-finished goods are in short supply, etc. Second, there is a shortage of skilled and competent engineering, technical and commercial national personnel. This problem is compounded by the competition with private and foreign enterprises which entice experts by offering them higher pay and other benefits. Third, there are all kinds of deficiencies in administration, in particular, the salaries of the managerial staff are not made directly dependent on the results of the economic activities of state-run enterprises. The salaries of the higher administrative echelon often exceed the profits of the owners of private enterprises. Besides, the bureaucratic elite makes various illegal deals (the plunder and sale of property, the

raising of prices of the raw materials and equipment obtained from private partners and the lowering of the prices of their own produce, the use of materials belonging to the state for personal purposes, and so on). All this causes heavy material damage to the public sector. And fourth, the governments of many developing countries pursue a specific policy of prices. In most cases the purpose of such a policy is to support private enterprise. The lowering of prices down to a level when production costs cannot be repaid means that the deficit at state-run enterprises would be subsidised from the budget, and therefore the national income would have to be redistributed in favour of the local bourgeoisie, and often even in favour of foreign capital. The practice of depressing the prices of the goods and services provided by state-run enterprises is fairly widespread in India (in particular, this concerns the prices of metal, coal, and fertilisers). This practice is widespread also in other countries of Asia (Indonesia, the Pilippines, and Thailand), and in many countries of Africa (Nigeria, Senegal, and Uganda), and in Latin America (Argentina, Brazil, Mexico). This is often justified by references to the need to curb inflation, expand markets, or stimulate the development of some regions.

It is quite obvious that the carrying out by the public sector of its important and diverse functions is inseparable from its efficiency and profitability. The problem at this stage is not to justify the losses at state-run enterprises by references to allegedly objective reasons, but to make most of their untapped internal resources. Among the measures that can help improve the financial and production results of the enterprises in the public sector are improvement of planning at factory level, going over to more balanced princing, the use of rational methods of financing and control over spending, improvement of material and technical supplies, the saving of scarce materials, and measures to prevent abuses.

The growing economic difficulties in the developing world in the 1980s greatly increased the need to raise the efficiency and profitability of state-run enterprises. Many countries in Asia, Africa and Latin America were compel-

led to cut back their spending on the public sector and seek resources to ensure economic growth. In this situation more attempts were made to hand down the constantly unprofitable enterprises in the industries of secondary importance to private owners. The sale of such enterprises, which is often done on easy terms for private capital, is designed for a recovery of the public sector and does not threaten its economic positions.

Meanwhile another tendency has emerged, the one associated with handing over to private capital of highly profitable enterprises in the key industries having good prospects of growth. In countries like Mexico, Argentina, Malaysia, and Turkey this is done openly for the benefit of big national capital and international monopolies. This line is justified by references to the need to release the means in short supply and concentrate them in other spheres of economic activity. But in actual fact, this obviously means the subsidising of private capital and undermining of the positions of the public sector—a result of the increased financial and economic pressure exerted by transnational corporations on the developing countries in recent years.

## 5. The Public Sector and International Monopoly Capital

The important functions of the public sector are the protection of national sovereignty, the reduction of economic dependence on the centres of capitalism, and opposition to growing exploitation. The desire of the newly-free countries to attain these major goals has always come up against the stubborn resistance of international monopoly capital, the public sector becoming the chief target of its attacks. The history of the public sector is a history of incessant struggle against international monopolies. It has gone through different stages—the all-out strengthening of the economic positions of the state and its resolute advancement towards economic progress and independence, and the setbacks, when the gained positions were yielded to some extent and the protection of national economic interests grew less effective.

The experience of relations between the public sector and international capital reveals some common trends in the struggle carried on by TNCs against progressive tendencies in the development of the public sector. These are: financial and economic blackmail and boycotting, actions to discredit the public sector by circulating the idea of its economic inefficiency; infiltration into the public sector and erosion of state property; extraction of big profits from cooperation with the public sector; mediation in its ties with the consumers and with domestic and foreign markets. Let us consider each of these trends in greater detail.

Financial and economic boycotts and blackmail have often been used by international monopolies in a bid to prevent the nationalisation of their property in developing countries. These methods were used to bring pressure to bear on the Popular Unity government in Chile in the early 1970's, when it was subjected to a crediting blockade. The World Bank, Inter-American Development Bank and private American banks suspended the granting of credits to Chile. When the copper mines were nationalised, the import of Chilean copper was placed under embargo. Besides, the deliveries of spare parts and equipment required for the normal work of Chilean industry were blocked. The same methods of boycott and blackmail are used today by the US monopolies against Nicaragua to force that country to give up progressive social and economic reforms.

International monopolies pin great hopes on discrediting the public sector by exaggerating the difficulties and deficiencies in the work of state-run enterprises and spreading the idea that 'the state has always been a bad master'. A good deal of effort is being exerted of late to back up such ideas theoretically by imposing monetarist concepts of a 'free economy', according to which the public sector should be reduced, many important forms of state regulation be abolished, and private capital be given a free hand. Such concepts are advocated extensively by the International Monetary Fund. Exploiting the increased monetary and financial difficulties confronting developing countries, their

immense foreign debt above all, the IMF imposes on them so-called 'stabilisation programmes' envisaging a large-scale privatisation of state enterprises and great limitations on the state participation in the economy.

Frontal attacks on the public sector not always produce a desired effect. More often than not they meet with a strong rebuff on the part of progressive forces. Therefore international capital resorts to covert methods, above all to the tactics of eroding the public sector carried out mainly in two ways. First, foreign companies buy up state enterprises, by themselves or together with local capital, which are sold out because of financial difficulties or with a clear purpose of building up the private sector. Second, these companies infiltrate into major enterprises of the public sector by purchasing a share in their stock. In the latter case it often happens that an initially small share grows and the foreign company which had bought the share gradually tightens its grip on the joint enterprise.

When the public sector occupies a dominant (or even monopoly) position, TNCs resort to various kinds of co-operation, establishing joint companies, signing contracts on technical aid, offering services, ensuring the marketing of output, etc. This is most widely practiced in extractive industries (oil, gas and ore mining). This kind of cooperation enables foreign monopolies to derive no small financial and economic benefits, by-pass legislative restrictions, and get access to raw-material resources. In this they are often helped by an inconsistent policy pursued by the authorities in developing countries who under various pretexts fail to comply with the principles and norms of using natural wealth adopted earlier.

So, international monopoly capital is a force opposed to the public sector in developing countries and it spares no efforts to undermine that sector's positions in the economy. Naturally, the TNCs' approach to the public sector is not as simple as that. Depending on a situation in one or another country and on international factors, they change their methods and their tactics. In some cases their actions are openly hostile, while in other cases they display some tolerance and restraint, acting more in a roundabout way.

At the present stage international monopolies, availing themselves of the grown difficulties in developing countries, are trying to launch a large-scale offensive against the public sector in order to get the economic activities of the state reduced. But all this runs counter to the vital national interests of the newly-free nations.

*Questions for Self-examination*

—What are the main forms of the state's participation in economic activity?

—What is the public sector?

—Why did this sector emerge?

— What is the progressive in the public sector of developing countries?

—What is the scope of nationalisation in developing countries and what part does it play in building the public sector?

—What are the specifics of the state's investment activities in developing countries?

—What positions are held by the state in the economy of developing countries?

—Why are some state-run enterprises unprofitable?

—Why does international capital resist the development of the public sector?

*Topics for Discussion*

—The role of the public sector in speeding up economic growth and consolidating the economic independence of developing nations.

—National private capital and the public sector in developing countries.

—Ways of making the public sector more efficient economically.

CHAPTER 9

# Foreign Capital in Developing Countries

Foreign capital plays an important part in developing countries and has a great influence on their economy and many aspects of social life. The scope and directions of its activity are a factor determining the economic positions of industrialised capitalist countries in the Third World.

In the post-war years the capitalist countries went out of their way to build up private investment in developing countries and provide conditions for its yielding high profits. Of great importance was the extensive support given to private investors by the centres of capitalism on a state level. The support was economic (the granting of numerous financial benefits, state guarantees, subsidies, etc.) and political (diplomatic and other actions designed to pressurise the governments of developing countries into making concessions in favour of foreign capital).

The developing countries, for their part, tried to limit the uncontrolled activities of foreign companies, make them serve national interests, expand and reinforce the national sector, and narrow down the scope of exploitation by the monopolies. Depending on the specific conditions in individual countries, this policy was pursued more or less consistently and resolutely. However, in most of the developing countries it was a real and constant factor international monopolies could not afford to ignore.

Incidentally, the subject of this and a few next chapters makes it inevitable for the authors to cite more figures than usual, so the students of this course should not be surprised as they come across rather many facts and figures.

## 1. Export of Capital in the System of International Economic Relations

The export of capital is placing abroad a property bringing its owner profit in the form of regularly received surplus value through the exploitation of the working people in the country where the capital is invested. The export of capital began to be practiced already when capitalism was just taking shape, but at that time it played a secondary part as compared with the export of goods, and its proportions were small. The situation changed cardinally at the turn of the 20th century.

Since then on, the export of capital has been growing most rapidly. Over the period from 1913 and until the end of the Second World War in 1945, the foreign capital investment of major capitalist countries increased roughly by one-third. In the subsequent period total foreign investment practically doubled every decade. The export of capital proceeded at a higher rate than the growth of the Gross National Product and the export of goods from capitalist countries. The direct foreign investment of these countries was about $700,000 million in the mid-1980's or, in nominal terms, it exceeded the 1913 level about 300 times over. Thus, the export of capital is the most important form of economic relations for modern capitalism.

But what causes the export of capital? It is caused by the accumulation of excessive capital on the national market, which results in a search for more profitable spheres of its investment. It is important to note, however, that this surplus is relative, but not in the least absolute and is mainly associated with the investor's desire to gain more profit. When the capital is invested abroad, this is not because it absolutely cannot be used within the country, but because it can yield higher rates of profit abroad.

There may be various motives for investing capital abroad. First, the investors avail themselves of the considerable difference in the wages paid in different countries and have the possibility of saving a good deal on production costs. Precisely this attracts foreign investors to developing countries. In many developing countries of

Asia, Africa and Latin America as a rule, labour is very cheap, while the wages are 10 to 20 times lower than those of American workers. Besides, in these countries the trade unions are weak (in some of them they are even banned), which hampers the workers' organised struggle for their rights and enables the foreign investors to intensify the exploitation of labour.

Second, an important motive for exporting capital is the desire to gain access to raw materials. The developing countries, which have abundant natural resources, rivet the attention of foreign investors. Major industrialised capitalist countries largely depend on deliveries of most necessary raw materials from the developing world and seek to ensure the supply of raw materials for their enterprises by exporting capital. Thus, due to its foreign investment the USA imports all its phosphates, copper and lead and 75 per cent of manganese and iron ore, while Japan gets 40 per cent of bauxites, 50 per cent of nickel, and 60 per cent of copper ore that way.

Third, the chief motive behind the export of capital is that the investors need markets. Foreign investment enables them to expand the export of goods (equipment, materials, and semi-finished products), because their buyers are now the factories built abroad. The part of foreign industrial enterprises in the export of major capitalist countries is great indeed: it amounts to over one-third of the export of the FRG, France, Canada, and Sweden, and up to half of US export. At the same time the export of capital allows them to circumvent the customs barriers in the way of the export of their goods by seizing the markets from within. This is how American and Japanese investors penetrate the EEC, which is fenced off by customs barriers. In the same way they penetrate the markets of other economic groups of developing countries.

The export of capital is conducted mainly in three ways: by direct investment, by making portfolio investment or by granting loans. Direct investment is the export of enterprise capital, that is capital meant to be invested in production and exploitation of hired labour. As a rule, such investment presupposes control to be exercised by the capital

exporter over a foreign enterprise, with its profit being of enterprise in its nature. Portfolio investment is made in several ways. It may be participation in share capital and in this case it is either production investment, that is, it is spent on extracting the profit of enterprise, or is investment in securities (for instance, bonds) issued by enterprises. This form of capital investment gives no right to participation in managing an enterprise but only ensures a definite profit. Capital is exported also in the form of loans. Today, this form is prevalent and by far exceeds the export of the capital of enterprise (for more details see Chapter 10 in this book).

In the post-war years the export of capital has undergone considerable changes. Most significant of them is the sharp increase in the role played by TNCs and transnational banks (TNBs). This was largely due to new developments in the economy of modern capitalism marked by an enormous upswing in the concentration and centralisation of capital, the growth of the financial and industrial oligarchy and the emergence of powerful international industrial corporations and banks.

The TNCs own the overwhelming part of foreign investments. They are big enterprises, national in capital and control, but international as to the sphere of their activities. They have big foreign assets accumulated through the export of capital in the form of direct investment, as well as a big share of the aggregate output sold on foreign markets. On the whole the TNCs may be defined as private capitalist enterprises transferring their production abroad on a scale that has a substantial impact on the structure of the economy, on export and price formation of the host country and on its labour market.

By various estimates the TNCs have controlled from 25 to 33 per cent of the GDP of the capitalist world, and from 60 to 66 per cent of the export and over 90 per cent of the foreign investment of industrialised capitalist countries. Their output abroad has considerably outstripped world capitalist export. In the early 1980s the foreign output of the US transnationals exceeded the export of the United States five times over, and this difference was 40 per cent

in favour of Japan and 30 per cent in favour of Western Europe. It must be stressed here that the role of TNCs in the world capitalist economy is growing, while the proportions of their foreign production are rapidly expanding. From 1971 to 1980, the value of general trade of 350 biggest corporations went up from $526 billion to $2,700 billion, while the number of people employed at their enterprises increased from 19.6 million to 25.5 million, which was a quarter of all labour employed in the manufacturing industry of the capitalist world. The value of their foreign operations was growing even faster, rising from $107 billion to $714 billion.[1]

The balance of strength among major TNCs is not always the same. In 1955, the list of 100 major companies included 79 American and 21 West European ones, whereas in 1985 it already included 48 American, 27 West European, 12 Japanese companies and 13 companies representing other countries. Though the current positions of the US transnationals tend to become weaker they are still in the lead.

Japanese transnationals have notably outstripped all the others. Five biggest universal trading companies of Japan have an annual turnover exceeding $59 billion each.

Transnational banks play an important part among international monopolies. They may be defined as monopolies with a large system of foreign share-holding and property, and the bulk of their capital is in deposit and credit institutions. The international operations of the transnational banks are expanding at a very high rate due to the wide proportions of international money and loan markets. These banks perform a wide range of financial operations and have built up vast financial power. Each of the 500 major banks in the capitalist world had assets exceeding $3 billion in 1985. The top hundred among them owned two-thirds of these assets. The assets of one-quarter of the largest banks topped the mark of $10 billion. Of them, 13 banks had $100 billion each.

The balance of strength between national bank groups is changing, too. The share of the US banks in the assets

of 100 biggest transnational banks, which was 33 per cent in 1970, dropped down to 18 per cent in 1985.

The Japanese banks have been stepping up their operations rapidly, and their world positions are growing strong. In 1985 their assets on the list of 500 major transnational banks exceeded those of the US banks by 45 per cent. In 1970 they were not listed among the top ten, while in 1985 five Japanese crediting institutions were already on this list.

Another important feature of the post-war export of capital was that the state came to play a significant role in it. The state handled big operations, exporting loan and enterprise capital. The governments of industrialised capitalist countries established a system of refinancing and guaranteeing foreign credits and investment. The centres of capitalism made the protection of foreign investment from nationalisation and provision for the investors of favourable conditions by offering them all kinds of concessions and privileges one of the main goals of their foreign policy. The governments set up specialised state-run crediting institutions (in particular, export and import banks in the United States and Japan). In 18 industrialised capitalist countries, special mechanisms are introduced to guarantee private firms against losses they may incur in cases when their foreign partners fail to serve their debts on credits received.

Foreign direct investment by advanced capitalist states is one of the more dynamic spheres of international economic relations. Its growth is indicated in Table 1.

*Table 1*

**Direct Foreign Investment by Industrialised Capitalist States**[1] (in bln. of US dollars)

| | USA | Western Europe | Japan | Others | Total |
|---|---|---|---|---|---|
| 1960 | 31.9 | 21.5 | 0.3 | 4.8 | 58.5 |
| 1973 | 101.3 | 84.8 | 10.3 | 10.5 | 206.9 |
| 1979 | 192.4 | 178.0 | 29.7 | 21.4 | 421.5 |
| 1981 | 227.3 | 224.1 | 46.4 | 27.2 | 525.0 |
| 1984 | 232.1 | ... | 71.4 | ... | 667.9 |

In the first post-war decades the United States led in the export of capital. In 1960, it accounted for 55 per cent of all direct foreign investment. By the start of the 1980's, its share shrank to 40 per cent and is dwindling away. Though the US direct investment outsizes that of its any rival, the competition in the export of capital is growing ever more fierce. Japan and major West European states are increasingly active in this sphere. In the 1980's, Japan outpaced its rivals in the size of annual direct investment and has become one of the largest capital exporters. For example, the export of Japanese capital in the form of direct investment in 1981 to 1984 came close to the $35 billion mark which was twice as much as the US invested ($16.2 billion). Great efforts in this sphere were exerted by West European investors. From 1967 to 1984 British direct investment went up more than six-fold (from $17.5 billion to $111.4 billion); and that of the FRG increased more than twenty-fold (from $3 billion to $63 billion). Simultaneously, other West European countries. like Sweden, Switzerland, the Netherlands, Italy and others, also increased their participation in the export of capital.

Significant changes have occurred in the directions of capital export. Before the Second World War the chief sphere of applying capital were colonies and dependencies. After the war the situation notably changed. Capital was now exported primarily to industrialised capitalist states. Initially (in the 1950's and 1960's) the main flow of direct investment went into Western Europe, and beginning with the mid-1970's it began to move to the United States. In the mid-1980's, the annual investment of foreign capital in the US was double the sum of the annual direct investment of the US companies abroad. In 1985 the accumulated sum of foreign investment in the US ran into $182.9 billion, which equalled 80 per cent of the assets of the US companies abroad. On the whole, 65 per cent of all direct foreign investment was accumulated in the USA, West European countries, Japan, Australia, Canada and New Zealand, and 35 per cent in the developing world.

Such distribution of investments reflected the deep-going processes in the capitalist economy: the growth of special-

isation and establishment of cooperation ties and, on that basis, the deepening of the division of labour within industries, and also the further internationalisation of production. The developing countries, because of their economical backwardness and their poor productive forces, were largely isolated from all these processes. That set off the decline of their role as a sphere where foreign capital could be used.

At the same time, it would be wrong to underrate the significance of capital export in the system of economic relations between the centres of capitalism and the developing countries. It still remains the main form of these relations and factor determining the economic and political influence of major capitalist powers in the developing world.

## 2. TNCs in Developing Countries

Rich in natural resources and having potentially spacious markets and cheap labour resources, the developing countries have always been in the focus of attention of big foreign capital. The big capital of the colonial powers—Britain, France, Holland, Belgium and others—and also the giants of North American capital displaying special interest in Latin America operated there even before the war. In the post-war years the developing world became an area of vigorous activity for TNCs. Their increased significance was seen in the fact that in the mid-1970's three quarters of the US private capital invested in developing countries came from 179 biggest corporations. In some countries the concentration of US investment was even greater. In Mexico, for instance, ten US companies controlled over a half of all North American investment, and in Brazil 15 companies controlled nearly 60 per cent. In the first half of 1970's, in Latin America 13 companies owned 95 per cent of all investment in ore mining; in oil production 15 firms controlled 86 per cent of investment; and in the manufacturing industry over a half of all North American investment belonged to 25 biggest companies of the United States.[8]

Among the biggest exporters of capital to developing countries are also international monopolies of West European countries, including widely known companies like Royal Dutch Shell, British Petroleum, Unilever (Great Britain), Philips (Holland), Bayer and BASF (FRG), and Elf-Aquitaine and Rhône-Poulenc (France). The export of Japanese capital, too, is highly monopolised.

The developing countries were confronted with a new force—the TNCs. Their immense productive and financial power and a ramified network of branches in many countries and close ties with the state authorities, greatly extended TNCs' economic possibilities, enabling them to use numerous levers of economic and political influence and providing conditions for imposing on developing countries new forms of dependence.

At the same time, the developing countries had an objective interest in attracting foreign capital, since TNCs had all that the newly-free countries needed so badly—money, know-how, skilled personnel, and up-to-date equipment. On that basis foreign capital was potentially capable of assisting developing states in solving such important problems as improvement and modernisation of the main sectors of the economy, an increase of employment, expansion of the scientific and technological base, etc. But these possibilities were used in very contradictory forms, which was due to the nature of international monopoly capital which sought to keep using the developing world as an unequal, dependent and exploited element of the world economic system.

On the whole, the TNCs tried hard to expand various forms of their activity, in particular, to increase direct investment in developing countries. Even though fairly wide measures were taken to nationalise foreign enterprises in many Asian, African and Latin American countries, the total amount of direct capital investment in the developing world was steadily increasing throughout the post-war years. In the early 1960's, the annual capital invested from abroad amounted to $2 billion, whereas in 1974 to 1982 it rose to $10 billion, and reached its peak of $17.1 billion in 1981. The total of investment accumulated in the countries that

are not oil exporters increased from $47 billion in 1974 to $140.3 billion in 1983.[4] Despite the difficulties resulting from the crisis of the 1980s, the inflow of foreign investment in developing countries did not cease. Between 1982 and 1986, upwards of $50 billion was invested there. In the latter half of the 1980s, the total sum of accumulated investment reached about $230 billion.[5]

However, the distribution of direct capital investment in the developing world was very uneven. The group of the least developed countries, which is the most numerous and needs financial resources more than anything else, is outside the investment activity of foreign capital. Their share of accumulated investment is minimal and tends to grow smaller.

The bulk of direct investment is concentrated, as can be seen from Table 2, in the more developed among de-

*Table 2*

**Distribution of Direct Foreign Investment in Developing Countries[6] (per cent)**

| Regions and groups of countries | Accumulated direct investment | | |
|---|---|---|---|
| | 1971 | 1978 | 1984 |
| **Regions** | | | |
| Latin America | 55.7 | 56.7 | 57.2 |
| Africa | 18.6 | 12.4 | 10.5 |
| West Asia | 6.4 | 3.2 | 3.4 |
| South Asia | 7.5 | 5.0 | 4.7 |
| Southeast Asia | 11.8 | 22.7 | 24.2 |
| **Groups of developing countries and territories** | | | |
| Least developed countries | 1.5 | 1.5 | 1.4 |
| Oil exporters | 25.2 | 16.6 | 14.1 |
| New industrial countries | 25.0 | 33.7 | 41.2 |
| Tax havens | 8.0 | 14.2 | 15.1 |

veloping countries i.e., in the countries rich in mineral resources, where the inputs bring more profit. Capital investment is tended to be increased in the former group, which is evidenced by the increased investment in Latin

America (mainly Brazil, Mexico and Argentina) and in Southeast Asia (in the first place, Singapore and Hong Kong). The role of the 'tax havens', (Bahamas, New Hebrides, Bermudas and Antilles, as well as Panama) is increasing, but the flow of capital into these countries is non-productive and is caused by financial operations on establishing holding companies there to reduce taxable profits.

The biggest exporter of capital to developing countries is the United States, whose accumulated investment totalled $53.9 billion in 1984. Latin America, with more than a half of all US investment in the developing world being right there, became the main area where US capital was channelled to. But the situation has been changing in recent years. The amount of investment in Latin America dropped from $38.8 billion in 1980 to $28.1 billion in 1984, mainly when the financial assets in the Caribbean countries declined. In the meantime the US transnationals grew more active in Asian countries. Their investment in Asia went up by 160 per cent between 1976 and 1984. US direct investment in Africa increased by 170 per cent from 1976 to 1984.[7]

Though the other major investors lag far behind the United States in the amount of exported capital, their concentration of efforts on individual regions give them considerable superiority. Thus, the Japanese transnationals by far surpass their US rivals in the size of direct investment in Southeast Asia. The French investors are in the lead in many countries of Tropical Africa. They account for 74 per cent of all foreign investment in Gabon, 87 per cent in Senegal, 75 per cent in Cameroon, and 80 per cent in Côte d'Invoire.[8]

To make a correct assessment of the economic positions of TNCs in the developing world, one should take into account not only the growth of direct capital investment, but also the fundamental changes in the investment policy pursued by international capital. In the post-war period, when the tendencies of foreign property nationalisation were on the upgrade and political and economic stability was declining in many developing countries, the interna-

tional monopolies were very cautious in making new investment and somewhat limited the export of capital to the Third World. The chief stake now was on the methods of so-called 'imperceptible' presence, including large-scale involvement of national entrepreneurs into their orbit of influence, establishment of utmostly wide contacts with local industries and the financial bourgeoisie, making use of its material and financial resources to expand foreign enterprises, and gradual replacement of direct investment by technological, crediting, marketing, organisational and other ties.

The line of subjecting local capital to their control and making intensive use of its resources and ties was followed by TNCs throughout the post-war period. That was being done in several ways. International capital often resorted to direct suppression of national enterprise, taking over local companies, and depriving national capital of any independence. These methods were used extensively in the 1950's and the 1960's. US transnationals bought up national enterprises on a large scale. Of the 1,325 enterprises established by US corporations in Latin America in 1945-1967, only 638 were new, while the rest were formed either after their takeover by US firms or as a result of merger with the latter.

Most of the enterprises established by international capital were so-called joint companies, which used local capital as well. Initially the share of local entrepreneurs in the joint stock of these companies was limited. But beginning with the latter half of the 1960's, the practice of equal participation was getting ever more widespread. These methods, of course, were used primarily by the weaker US rivals. In 1975 for example, of the 1,152 foreign companies set up by Japanese capital, the latter controlled over 50 per cent of the shares only in 258. US corporations were compelled to change their approach. Of the 179 enterprises established in developing countries by the biggest US transnationals in 1971-1975, the US parent corporations had a smaller part of the shares in 28 per cent of cases.

The international corporations sought to offset the de-

crease in their share in the capital of joint companies and the resultant narrowing down of their possibilities of exercising direct control over these companies by exercising indirect control through diverse production, trade, crediting, marketing, and other ties. Judging by all the signs mentioned above, the newly established joint ventures, as a rule, found themselves utmostly dependent on the parent companies from the outset. According to a poll conducted among North American transnationals, the parent companies in Mexico accounted in the mid-1970's for 40 per cent of the total long-term indebtedness of the branches, for 19 per cent of all materials required for production, and 82 per cent of their export sales. In Brazil the parent companies controlled half of all the credits granted to mixed companies, 12 per cent of all material necessary for the normal production cycle, and 75 per cent of export.

These and other measures enabled the transnationals to resist the developing countries' efforts to weaken monopoly control and helped them retain major positions in the economy of Asian, African and Latin American countries. This course was most pronounced in the raw-material sector.

Control over the marketing of farm produce and mineral raw materials is a powerful instrument in the hands of TNCs. According to available estimates, TNCs controlled from 70 to 80 per cent of this trade in 1980 (see Table 3).

The situation is not the same everywhere, of course. On some markets TNCs maintain control over both production and the stage of processing and marketing (in particular on the markets of bauxites and bananas), and this ensures the movement of these products within the closed channels of inter-corporate circulation. Simultaneously, the role of transnational trade corporations has notably increased. They dominate on the markets of cotton, cereals, cocoa, and tobacco leaves. These trade corporations control not only foreign markets, but also the national trade network in the consumer countries, thus bolstering their monopoly position. In these conditions, for instance, the oil exporting countries, which have not even established their marketing organisations, have no chance to deal independently with

*Table 3*

**Corporate Control over Global Commodity Trade (1980)[9]**

| Commodity | World Export in bln. of US dollars | The share of export controlled by 15 biggest TNCs (per cent) |
|---|---|---|
| 1 | 2 | 3 |
| Mineral raw materials | | |
| Oil | 306.0 | 75 |
| Copper | 10.6 | 80-85 |
| Iron ore | 6.9 | 90-95 |
| Tin | 3.6 | 75-80 |
| Phosphates | 1.6 | 50-60 |
| Bauxites | 1.0 | 80-85 |
| Agricultural raw materials | | |
| Forest product | 54.5 | 90 |
| Cotton | 7.9 | 85-90 |
| Natural rubber | 4.4 | 70-75 |
| Tobacco | 3.9 | 85-90 |
| Jute | 0.2 | 85-90 |
| Food | | |
| Wheat | 16.6 | 85-90 |
| Sugar | 14.4 | 60 |
| Coffee | 12.6 | 85-90 |
| Corn | 11.9 | 85-90 |
| Rice | 5.0 | 70 |
| Cocoa | 3.0 | 85 |
| Tea | 1.9 | 80 |
| Bananas | 1.3 | 70-75 |

the ultimate consumer in industrialised capitalist countries and have to rely on the marketing network of the very same transnationals whose branches they had nationalised. As a result, the loss of former domination in raw material production and the growing of plantation crops in the developing world was largely offset by the transnationals by retaining their monopoly control over the processing and marketing of these products.

So, we see that the economic positions of TNCs in the developing world were transformed a good deal in the post-war years. This proceeded under the impact of contradic-

tory factors which, on the one hand, limited the possibilities for monopoly control and, on the other, gave the TNCs room for manoeuvre, enabling them to find new ways of retaining and expanding their economic influence. International capital seeks to neutralise, with the help of a purposeful policy, the tendencies that are unfavourable to it and bends every effort to impose on developing countries new forms of economic dependence on the centres of capitalism.

## 3. The Strategy of International Monopoly Capital

After the Second World War international capital took sweeping measures to achieve its strategic goals—to bolster its economic positions in developing countries, win more reliable social backing there, and provide conditions enabling it to exploit the newly-free nations still more. At the same time, in the post-war years many developing countries clearly tended to achieve greater state sovereignty and speed up their economic growth, which compelled TNCs to alter their approach to the Third World and reckon with the changes in the economic policy of the newly-free countries. To that end they set out to rule the roost in the key economic processes going on in the developing countries, using them for their own benefit.

Industrial development was the central element in the economic policy of the majority of developing countries. Many of them followed a course of industrialisation, expecting it to help them to reduce import. The chief goals of that policy was to start the output of manufactured consumer goods at home and, on that basis, to accelerate industrial growth, cut the import and improve the balance of trade and payment. International monopoly capital bent over backwards to gain control over import-replacing industrialisation and make it serve its own purposes.

To grasp the significance of this new attitude of TNCs, one should remember that foreign capital has always looked upon the developing countries as a source of raw materials and foodstuffs and a good market where it can sell manu-

factured goods. Before the war the bulk of direct foreign investment was in mining, oil production and plantation farming. As for the manufacturing industry, foreign investors did not invest much in industrial production but, on the contrary, fearing a drop in the sales of their manufactured goods on the markets of the developing countries, obstructed industrial growth there before the war (in particular, in the 1930's when India, Egypt and some Latin American countries just set out to build import-replacing industries), and in the initial post-war years. Suffice it to recall the fierce resistance by British capital in the 1950's to the development of the jute, cotton and cement industries in Pakistan.

The plans of Asian countries to build the foundations of iron-and-steel industry came up against stubborn opposition. British and American companies refused to take part in the construction of an iron-and-steel plant in India and gave their consent only when such a plant was under construction in Bhilai with Soviet aid. Foreign capital blocked for a long time the project of building metal works in the Phillippines. In Latin America, the North American investment in these industries was minimal. The change occurred only in the latter half of the 1950's, when a large group of Latin American and Asian countries, as well as African countries in the 1960's, took the path of import-replacing industrialisation.

The new approach of TNCs gave rise to marked changes in the distribution of foreign investment in the industries of developing countries. They are clearly visible in the changes that occurred in the direct investment made by the United States in the industries of developing countries (see Table 4).

The manufacturing industry became the main sphere of investment for international capital. The United States put into that industry over 40 per cent of all new investment in developing countries. Other capital exporters, too, became most active in that sphere. In the early 1980's, about 13 per cent of Japanese foreign investment in the manufacturing industry was concentrated in developing countries. Lavish investment in that industry was made also by West Euro-

*Table 4*

**Direct Foreign Private Investment of the USA in the Industries of Developing Countries**
(in bln. dollars)[10]

| | 1966 | 1970 | 1975 | 1980 | 1984 |
|---|---|---|---|---|---|
| Total | 13.9 | 19.2 | 26.3 | 53.2 | 53.9 |
| Oil industry | 5.1 | 6.6 | 2.5 | 10.3 | 18.4 |
| Manufacturing industry | 3.5 | 5.5 | 10.5 | 17.8 | 20.1 |
| Other industries | 5.3 | 7.1 | 13.3 | 25.1 | 15.3 |

pean exporters of capital (primarily West Germany, Great Britain and France). Table 5 shows the dynamics of this investment.

*Table 5*

**Direct Foreign Investment in the Manufacturing Industry of Developing Countries**
(in mln. of US dollars)[11]

| Country | Early 1970's | Early 1980's |
|---|---|---|
| Brazil | 2,802 | 13,005 |
| Indonesia | 1,622 | 4,202 |
| Mexico | 2,377 | 3,868 |
| Singapore | 665 | 1,773 |
| Nigeria | 575 | 873 |
| South Korea | 88 | 737 |
| The Philippines | 46 | 716 |
| Columbia | 348 | 572 |
| Hong Kong | 133 | 434 |
| Malaysia | 137 | 433 |
| Thailand | 68 | 198 |
| Ecuador | 10 | 97 |
| Morocco | 9 | 92 |

The wide flow of foreign capital into the manufacturing industry of developing countries had a far-reaching effect. In many of them the positions of TNCs grew much stronger in this industry. In the late 1970's, the foreign enterprises in Singapore turned out 83 per cent of all manu-

factured goods in the country and employed 58 per cent of all workers. These figures for Malaysia were 44 and 33 per cent respectively.

Japanese capital has been most active in many Asian countries. It came out to assume dominating positions in many newly-build industries in these countries. Japanese companies are in the lead in radio electronics, the industry manufacturing TV and radio sets and tape recorders. They account for 56 per cent of the manufacture of these goods in Singapore, over 70 per cent in Malaysia, and 34 per cent in Thailand. Of the five biggest shipbuilding firms in Singapore, three are controlled by Japanese capital. Japanese textile monopolies Toray, Teijin, and Mitsubishi Rayon produce a great part of synthetic fibre and cloth. In the Philippines and Thailand they account for up to 85 per cent of this output.

The position of international capital are strong in Latin America as well. The direct investments made by the transnationals in the manufacturing industry of Latin American countries in the post-war years have shot up 40-fold and reached the $35,000 million mark. In manufacturing industry international capital controls up to 40 per cent of all output. In chemical, motor vehicle, and electrical engineering industries from 80 to 100 per cent of production is controlled by foreign companies. The main object of North American investment was the newest and most rapidly growing chemical, machine-building, motor vehicle, and electrical engineering industries. They accounted for up to 60 per cent of all capital investment.

Infiltration into the manufacturing industry enables the TNCs to bring into play new economic levers. One of them is growing technological dependence imposed on developing countries as a result of their backwardness in science and technology. In pursuance of this policy foreign investors often establish enterprises which are designed to use only imported technology. The technological lever is used by international capital to control not only joint ventures but also purely national enterprises in developing countries (see Chapter 6).

Furthermore, the dominating position of TNCs in many

sections of manufacturing industry in developing countries enabled them to have a firmer hold over domestic markets: the value of sales of the branches of only North American corporations in developing countries increased roughly seven-fold in 1966-1986 to reach $150,000 million in the latter half of the 1980's .

In this way international monopolies seek to deprive the import-replacing industrialisation of its real purpose and use it for building up their influence in developing countries.

Assessing the economic results of the strategy employed by international capital in the developing world, one cannot but state that it has altered considerably the positions occupied by TNCs in many countries. At the previous stages most of the foreign companies operated there as enclaves. The enterprises and industries they built had relatively little connection with the national economies. Using local resources, their output was almost entirely sold on the foreign market. The post-war years were marked by a deep penetration of foreign capital into the economies of developing countries and the establishment of diverse ties with all sections of their economies.

Of no smaller importance are social and political aspects of that strategy. Its primary goal was to provide conditions for consolidating the fundamentals of capitalism in developing countries to guarantee the strengthening of the social base for TNCs. That goal was attained mainly by involving into the orbit of their influence of an increasing number of national businessmen, apart from their traditional allies, that is, landlords and big trade capitalists. The use of joint ventures and all kinds of subcontractual relations and the establishment of financial, production, marketing and other cooperation with national firms enabled international monopolies to exercise control over national enterprise on a broad scale. As a rule, numerous small and medium national companies grouped round foreign enterprises and were entirely dependent on them. For instance, the West German Volkswagen company in Brazil had nearly 5,000 national suppliers. In Argentina, over 1,200 local firms worked for the US International Harvester. In Mexico

nine major foreign motor vehicle companies had 557 supplying enterprises employing 56,000 workers.

Cooperation between foreign and national capital all through the post-war years was profoundly contradictory and sometimes erupted in most acute conflicts between TNCs and national capital, each defending its own interests. But, on the whole, there is reason to believe that the TNCs have managed to forge a fairly large section of not only big, but also middle and small bourgeoisie closely bound up with foreign capital economically, financially and politically in many developing countries, especially the more advanced ones. As a result, TNCs can seriously influence the political situation in these countries by using their national resources or those of parent companies in order to back up definite political parties in elections, and by combining their effort against the groups demanding social reforms, and so on.

This line was followed on a large scale with regard to other social groups and classes, including the popular masses as large. Using paternalism and all kinds of handouts (such as higher wages and salaries), TNCs are trying to isolate their personnel from national democratic associations and create privileged groups of working people to be interested in the prosperity of the international companies.

The manoeuvring undertaken by TNCs to win wider social support in the developing world cannot, of course, remove the deep-going contradictions between international capital and the newly-free nations, since these contradictions are caused by the remaining economic dependence, inequality and the growing economic exploitation of the poor countries.

## 4. The Way in Which TNCs Exploit Developing Countries

The seizure of stronger positions in the economies of developing countries and the desire to control these economies, just as the wish to step up the exploitation of newly-free nations, are not an end to itself for TNCs. They do all this primarily to gain big profits. They levy

immense tributes on the developing world. According to available estimates, they take from the developing countries $15 to $16 billion of profit on direct investment annually. But that is only the above-water part of the iceberg of exploitation, for the total profit pumped out by the monopolies from these countries in various ways exceeds $100 billion dollars a year.

A large portion of the profit is due to the low cost of labour in developing countries. The workers employed by the American subsidiary companies in Asia are paid one tenth of what their counterparts of the same skill get in the United States, while the working day of the former is 1.5-2 times long as that of American workers, and the social spending there is four times less of what is spent for these purposes in the United States. No wonder, that TNCs extract three or four times as much profit from their investment in Asia as they gain at home. In their drive for profit the foreign monopolies often do not care for the health and even life of people. This is evidenced by the tragic events in the Indian city of Bhopal, where irresponsible actions by the American Union Carbide company resulted in poisoning and death of thousands of Indians.

TNCs employ many diverse methods to increase their profit. The most widely practiced one is the ousting of local producers and foreign rivals from the markets and monopolising the sales. These actions have been termed restrictive business practices (RBP). This implies a combination of methods of exerting pressure by monopolies on their rivals and on consumers. The methods include restriction of rivalry with the purpose of seizing and retaining a dominating position on the markets. Among the RBP methods is the so-called 'price war', that is, the sale of goods at deliberately lowered prices, sometimes even below the cost price, and outright subversion to destroy a rival. Such actions are performed in various ways. One of them is 'rejection of business ties'. Initially, foreign monopolies establish close production ties with local businessmen and become their constant suppliers or customers. Then all of a sudden they break these relations, leaving their business partners in a hard, if not critical, situation.

On the whole, foreign capital has become a serious decapitalisation factor in the developing world, bleeding their economies white. This is clearly illustrated by the data cited in Table 6. The profit remitted by foreign inverstors from the developing countries exceeded their capital investment by 120 per cent. The profits gained by the North American investors were especially big. From 1970 to 1980, their net investment in the developing world amounted to about $8 billion, while the exported profit ran into almost $56 billion. In other words, the US transnationals gained 7 dollars on every dollar they had invested in those countries.

The export of profit by foreign investors worsens the monetary-financial situation in the developing countries, compelling them to employ restrictive practices. Among these are a stricter regulation of the activities of foreign companies, a limitation of their profit remittance, and in some cases nationalisation of their property. TNCs, for their part, go out of their way to resist those measures and are trying to by-pass the restrictions imposed by the governments.

Of late, TNCs try to conceal their profit-gaining methods. The main among these methods are operations with so-called transfer prices (see Chapter 4).

*Table 6*

**Foreign Enterprise Capital in Developing Countries[1a] (1970-1980) (in millions of dollars)**

| | Inflow of direct investment | Export of profit |
|---|---|---|
| All developing countries | 62,615 | 139,703 |
| Latin America | 33,437 | 38,642 |
| Africa | 10,341 | 23,916 |
| Middle East | 57 | 48,619 |
| South and Southeast Asia | 18,048 | 27,260 |
| Oceania | 732 | 1,266 |

The experience of many developing countries has shown that the losses they incurred because of transfer operations are fairly substantial, and measures to restrict such opera-

tions can produce a tangible economic effect for the nascent states. The total losses suffered by the developing countries from TNCs operations with transfer prices run into tens of billions of dollars. According to preliminary assessments, they totalled $ 175 billion between 1965 and 1975. There is enough reason to believe that in the 1980's these losses considerably increased, since this is precisely the covert way used by foreign investors to take most of their profit away from these countries.

## 5. Can Foreign Capital Be Used in National Interests?

The functioning of foreign capital in developing countries is determined by the economic and political interests of TNCs as well as by the urgent requirements of the developing countries and specific historical conditions of their social, economic, and political evolution. Two different tendencies are observed in the approach of these states to foreign capital. The first tendency is to establish a rigid control over foreign enterprises with the purpose of making them geared to the goals of national development. The second group of countries tends to make TNCs one of the chief motive forces of economic progress and sees it necessary to achieve compromises with foreign entrepreneurs and grant them concessions.

In the 1960's and 1970's foreign capital experienced certain limitations and even weakening of its positions in some sections of the economies of Asian, African and Latin American countries, and the young states were regaining sovereignty over their natural resources and a number of key industries. There were about 2,000 cases of nationalisation of the TNCs property in the developing world. Above all, this process involved oil production and ore mining. In some countries, for instance, in Zaire, Togo, the People's Republic of Congo, Mauritania, the People's Republic of Benin, Algeria, Tanzania, Gabon, and Zambia, all foreign property was nationalised. In many developing states there even emerged a new section of national legislation providing for control over foreign capital operations.

These measures were a clear sign of economic decolonisation.

But it would be wrong to make an unequivocal assessment of this policy. No doubt, it has helped to build up the economic positions of developing countries in a number of important areas and opened up possibilities for using vast resources for national development by taking their oil wealth into their own hands. The oil-exporting countries, for instance, achieved a substantial rise in oil prices and a rapid growth of currency revenues, which served as a basis for developing and modernising their economies. But these positive processes were often accompanied by negative phenomena. In some sections of the economy where nationalisation had not been duly prepared (for instance on plantations), it disrupted production and trade relations, reduced output, and worsened production efficacy. The state-run enterprises that used the nationalised foreign property operated at a loss and had to be heavily subsidised by the governments. A substantial part of the increased resources in the public sector was embezzled by the bureaucratic bourgeoisie, which used them not in the interest of the whole nation but for their own enrichment (See Chapter 8).

The latter half of the 1970's and especially the 1980's saw a considerable change in the developing countries' attitude to foreign enterprise capital. From the strict regulation and limitation of foreign capital they increasingly changed over to encourage direct foreign investment, often rivaling with each other for providing the best conditions for TNCs. Of late the regulation of profit remittance abroad has been notably liberalised for the foreign investors in many countries of Asia, Africa and Latin America. Now they have had access to many sections of the economy that had previously been closed to them, and have regained the right to make wide use of local credits and establish enterprises without participation of local businessmen. The criticism of TNCs on the part of developing countries and international organisations has been toned down. There is a definite tendency towards damping down the interest of these countries in working out international documents to

regulate the activities of TNCs (such as the Code of Conduct for instance). Conceived as a means of protecting the national interests of states, this document is being gradually transformed into a code of so-called mutual commitments of governments and TNCs.

The changed attitude to foreign enterprise capital has been caused to a great extent by the objective difficulties confronting many developing countries today. These are the aggravation of their indebtedness and the acute shortage of currency required for further imports, for continued industrial growth and for modernising other sections of their economies. By attacting direct investment from TNCs the developing countries expect to smooth out, even if partially, their grave financial and economic problems.

Are these hopes justified? Practice has shown that the hopes for using direct foreign investment as a substantial external source of financing are not justified. The main reason is that with the total considerable growth of direct foreign investment the real inflow of fresh capital into the developing countries has been minimal, since new investment was made largely by reinvesting of profits and mobilising local financial resources. Thus, according to estimates of the situation in 12 developing countries—Bolivia, Brazil, Cameroon, Colombia, Costa Rica, El Salvador, the Philippines, Honduras, Israel, Mexico, Morocco, and Sierra Leone—39 per cent of all direct capital investment in 1973 to 1982 was made through reinvestment of profits. As much as 60 per cent of direct US investment and over a half of the whole increment of investment made by Britain came from this source.[13]

Besides, at the time when the developing countries needed foreign resources most of all, direct capital investment went sharply down from $17.1 billion in 1981 to $12.7 billion in 1982 and $7.6 billion in 1985[14].

As for TNCs, they employ different tactics, availing themselves of the growing interest of developing countries in direct capital investment. International capital often shows readiness to seek a compromise, especially with larger developing countries which have capacious markets and abundant natural resources, and quickly adapts to

local conditions in order to retain the overwhelming part of its benefits and advantages by offering a minimum of concessions.

At the same time TNCs seek ever new concessions from developing countries and tend to impose additional burdensome obligations on them. They have come out to turn part of the developing countries' debts into direct investment. In some countries this idea is already being applied in practice. For instance, Chile's foreign debt of $1.2 billion was turned into direct investment in 1986. According to estimates, another $1.8 billion of its foreign debt was made direct investment in 1987-1988.[15] With this money foreign entrepreneurs buy shares from various enterprises, increasing their control over many industries. Thus, the US Bankers Trust, which is biggest among Chile's creditors, has converted its loans to the tune of $60 million into the shares of insurance companies. Other US banks, as the Citibank and the Morgan Guarantee Trust, to which that country owes much, are conducting similar operations there. In Mexico $850 million out of the country's debt was turned into direct investment in 1986. This operation was estimated to have reached $1.5 billion a year later. In Argentina such operations were carried out to the tune of $1.9 billion.[16]

All this goes to show that the attempts by the developing countries to find mutually acceptable forms of cooperation with TNCs and secure a reliable source of external financing through foreign investment have, so far, failed to produce the desired effect. The deep-going contradictions between the developing world and the international monopolies still remain insuperable. These contradictions are most pronounced in international crediting.

*Questions for Self-examination*

— What is the export of capital?

— What is the role of the export of capital in international economic relations?

— What are the causes of the export of capital?

— What are the main forms of the export of capital?

— What are transnational corporations TNCs?

— What economic positions do TNCs occupy in developing countries?

— What are the specifics of the investment policy pursued by TNCs in the developing world?

— What are the goals of the economic strategy of international capitalism in developing countries?

— Why are TNCs so active in building industries in developing countries?

— What are profits exported by foreign private investors from developing countries?

— What are the changes in the attitude of the developing countries to foreign enterprise capital?

— Why does the growth of direct investment fail to solve the problem of external financing?

*Topics for Discussion*

— TNCs and their role in world economic development.

— The pros and cons in attracting direct foreign private investment in developing countries.

— Ways of using foreign capital in the national interests of developing countries.

CHAPTER 10

# The Developing Countries and International Crediting

Poverty, backwardness and economic dependence—these key elements characterising developing countries are largely associated with the functioning of the world capitalist crediting system.

In the post-war years the role of monetary-financial and crediting ties in the general system of economic relations between the developing countries and the rest of world was growing, and the impact of these ties on economic progress and many other spheres of social, economic and political activity (especially in the 1970's and 1980's) was steadily increasing. The financial dependence of many developing countries on the centres of capitalism tended to increase. This process was a result, among other things, of the policy pursued by international capital in a bid to develop new powerful means of pressure that would enable it to influence the main economic sectors in the newly-free states.

In the present situation the financial and crediting levers are widely used by the centres of capitalism for retaining the young states as an unequal and exploited element in the world capitalist economy. Meanwhile the negative effects of the growing financial dependence of developing countries, in the first place their heavy foreign debts and the need to spend big sums to service them, have given rise to a broad range of acute economic, social and political problems in the Third World. The peoples in the nascent states come to realise ever more the need to lessen this dependence and eliminate it altogether. This is becoming a major motive in their struggle for economic independence.

## 1. International Crediting

Crediting has a long history. It originated way back when society stratified according to property as the first historical form of capital bringing its owner, the usurer, profit in the form of interest on the money he lent. Usurers made lending at a high rate thus ruining small producers —peasants and craftsmen—who used a loan to meet their own consumer needs and to pay taxes. The ruling elite obtained loans to buy luxury goods, wage wars and satisfy its parasitic requirements. The creditors were the merchant bankers, tax-collectors, monasteries, and the church. The nascent bourgeoisie came out against usury, for it took away from the debtor not only the whole surplus product but also a part of the necessary product, thus sapping the foundations of capitalist production and preventing its development.

Crediting under capitalism acquired the form of the movement of loan (money) capital. Its sources are the temporarily free money of private firms and the profits and savings of all classes and sections of the population and the state. As the productive forces grew and extended beyond the narrow bounds of national markets, and as the economic activities became internationalised, crediting was spreading to ever wider proportions internationally.

International capitalist crediting is the movement of loan capital in the sphere of international economic relations with monetary and commodity resources granted on the conditions that they should be returned within a fixed term and at a rate of interest determined. In the present conditions international crediting is one of the main forms of economic relations among states. It is applied in foreign trade, helps to conduct money payments among countries and offers a possibility of using additional means from external sources for economic growth. In other words, it is a major factor of maintaining a normal functioning of the world economy.

International crediting is increasingly developing. In the 1970's, for instance, the annual increment of international crediting amounted to 20-25 per cent. It exceeded the

growth rate of production 5-fold and that of foreign trade among capitalist countries, 3-4-fold.

But international capitalist crediting is a complex and contradictory phenomenon. It plays at once a positive and a negative role in the development of the productive forces and in the evolution of international economic relations.

Its role is positive in that it speeds up the growth of productive forces. It ensures a redistribution of loan capital among countries, thereby providing favourable conditions for extending reproduction. International crediting makes it possible to accelerate the concentration and centralisation of capital, because the use of foreign borrowing extends the limits of individual accumulation and is conducive to establishing large firms and monopoly associations. By receiving foreign credits on easy terms, they can place small and medium firms under control. Thus crediting becomes a most powerful instrument in competition, facilitating capital centralisation.

In international economic relations crediting helps to save the trading costs by replacing real money with credit money, and also by making greater use of negotiable instruments. Credit stimulates foreign trade by creating additional demand, opens up broader opportunities for making direct investment abroad, and ensure greater competitiveness of goods on the foreign market, and greater profits.

The negative role of international crediting in the development of the capitalist mode of production is that its contradictions are getting more acute. International crediting has a deforming effect on the economy. It makes it possible to speed up the development of some sections of the economy, increases overproduction, causes great economic imbalances, and worsens still more the adverse effects of cyclic development accompanied by regular slumps. Crediting operations are used for pumping out profits from the borrowers, which narrows down the possibilities for accumulation, especially in developing countries. More often than not, credits are used for exerting economic pressure to obtain all kinds of political concessions.

To that end, crediting discrimination is widely practiced, including provision of worse terms for receiving, using or

repaying international credits for some borrowers as compared with others. The chief discrimination methods are the introduction of crediting restrictions, the raising of interest rates, and the charging of higher commissions. They also include the reduction of the term of crediting or of the easy terms period, a demand for additional guarantees. The credited sum may be abruptly reduced, and the granting of a credit made conditional on economic and political considerations. International monopolies use these methods with regard to developing countries thus compelling them to provide easier terms for the operation of foreign capital and to effect other changes in domestic economic policy in their favour.

Among their most powerful weapons is the credit blockade—i.e. refusal to grant credits to one or another country. A credit blockade is usually resorted to as part of an economic blockade. In some cases it is sanctioned by government decisions or decrees, but for the most part, it is conducted unofficially by refusing to grant a loan, for various reasons. The credit blockade is used as a means of pressure on developing countries. In 1971, international banks launched a credit blockade against Chile after the Popular Unity government headed by Salvador Allende came to power in that country. In 1985, the Inter-American Development Bank denied loans to Nicaragua. And in 1988, a credit blockade was launched by the United States against Panama.

## 2. Why Developing Countries Have to Borrow Abroad?

Developing countries seek foreign credits not because they wish to use the money of others and live 'on credit'—far from that. Their growing need for foreign borrowing is caused by objective internal and external factors. The low level of economic development, the constant shortage of finances, the limited domestic market, and the slow development of some sections of the economy narrow down their possibilities to finance economic growth from national sources. It often happens that, instead of conducting agrar-

ian, taxation and other social and economic reforms, the ruling circles in developing countries try all kinds of palliatives. Among them are a wider resorting to foreign borrowing, increased purchases of deficient goods such as foodstuffs, on a foreign market, and so on.

Many researchers note this important specific feature in the economic growth and economic policies of developing countries. One of them, Miguel S. Wionczek, a renown Mexican economist, writes: '. . .A good number of developing countries decided to resort to foreign borrowing in the recent past not only to cover the current account deficits in the balance-of-payments and their budget deficits, but also to postpone important reforms that might have increased their capacity to generate domestic savings and thus diminish their dependency on foreign savings'.[1]

The failure of agricultural production to meet the requirements of the fast-growing population resulted in the aggravation of the food problem in many countries of Asia, Africa and Latin America. Instead of effecting agrarian reforms which might have helped to speed up the growth of food production, their governments embarked on the road of stepping up imports. Their import of grain went up from 20 million tons a year in the early 1960's to reach 80 million tons in the 1980's.

Many developing countries' line on a wider use of foreign private capital was just as adverse. Its activities underwent substantial changes. Before the war it was mainly associated with the export sector and was geared primarily to the production and export of minerals, fuel, and foodstuffs, whereas later foreign companies concentrated on gaining the domestic markets of developing states. The contribution made by international capital in enlarging the export base and increasing export revenues was minimal, while its participation in the development of manufacturing industry actually led to a considerable increase of import needs and greater expenditures on technologies. It also brought the foreign companies higher profits and interests and made it possible for them to establish much stronger control over the credit markets. As ā result, the developing countries were faced with the increasing shortage of

currency and so were compelled to resort to foreign borrowing.

The fuel and energy situation shows the extent of these imbalances and the acuteness of the problems. The consumption of liquid fuel more than tripled going up from 433,200,000 to 1,404,200,000 barrels in Latin America between 1960 and 1980, while oil production in most countries met merely a small part of these requirements. In the late 1970's, 15 per cent of the consumption was covered through domestic production in Brazil; in Chile the figure was 20 per cent; and Uruguay, Paraguay and many Central American and Caribbean countries (Costa Rica, Nicaragua, Panama, El Salvador, Honduras, Jamaica, Haiti, and Guyana) produced no liquid fuel at all. Therefore the growing demands for fuel were satisfied primarily through import. In the 1960's and 1970's, the import of crude oil in Latin America shot up about 5-fold (from 114,100,000 barrels in 1960 to 506,000,000 barrels in 1980).[2] The growing dependence on oil import was most painful for Latin American countries in the 1970's, when the oil prices greatly increased. Between 1973 and 1980, oil expenditures of Latin American importers increased almost 9-fold (from $1.7 billion to $15.3 billion). For some countries oil became the main import item. In Brazil, for instance, oil accounted for over one-third of the total cost of import in the late 1970's and early 1980's, and the share of oil at that time reached 20 per cent in the imports of Argentina and about 30 per cent in the Dominican Republic, Jamaica, Guyana, Paraguay, and Uruguay.

Such are the internal factors forcing the developing countries to resort to foreign borrowing. What is it that these states are faced with in the system of international crediting? What are their positions on the world market of loan capital?

### 3. Developing Countries Do Not Enjoy Equal Rights in International Capitalist Crediting

Developing countries, as it has already been mentioned, are a periphery of the world capitalist economy, its weakest

and most dependent and exploited element. All this is most evident in international capitalist crediting. The developing countries are most unequal in that sphere and are constantly confronted with the profoundly egoistic monetary and financial policy pursued by advanced capitalist states and their bank monopolies. This line is clearly manifest in all the main areas of credit relations between the centres of capitalism and its periphery.

The main forms of credits granted to developing countries are: (1) state credits and subsidies provided on a bilateral basis; (2) multilateral state credits and those granted by international and regional financial organisations; (3) credits provided by private banks.

State credits received by developing countries along intergovernmental lines—so-called official development aid (ODA)—are granted on more favourable terms than market credits. The term fixed for repayment in the ODA framework is longer, while the interest rate is below the market one (sometimes credits are extended with no interest). State credits are used above all to finance the export of goods and services from industrialised capitalist countries. For that reason the overwhelming part of these credits (up to 70 per cent) are tied loans, that is, they may be used only in the lender country. This opens up opportunities for the firms of the lender country to raise the prices of delivered goods at their own discretion. There have been numerous instances when US firms delivered wheat as part of a state credit at prices exceeding those on the world market by 30 per cent. Nominally, the absolute sum of state credits and subsidies was growing from $4.7 billion in 1960 to $6.8 billion in 1970 and to $18.1 billion in 1980. It reached $28.7 billion in 1984. However, considering the sharp price increases and currency depreciations, the actual growth was far lower. Most of the industrialised capitalist states do not comply with the UN recommendations that ODA should not be less than 0.7 per cent of their GNP. In 1984, this aid actually was not bigger than 0.36 per cent, and it was 0.23 per cent for the USA, 0.35 per cent for Japan, and 0.45 per cent for the FRG.

The developing countries receive through international

and regional financial organisations about one-third of the financial resources allotted in the ODA framework. The source of these credits are donations by the member countries and their borrowing from the world capital market. The amount of aid provided by international financial organisations is not stable. Now and again they cut back the credits to developing countries because of the shortage of resources. Their credits are formally not tied, but in practice almost two-thirds of all crediting operations is made conditional on the deliveries of goods from the creditor countries. The cost of credits provided by international financial organisations is higher than that of the credits granted on a bilateral inter-state basis, though the terms are formally favourable: the interest rate ranges from 1 per cent on the credits granted by the International Development Association (IDA) to 11 per cent on those provided by the International Bank for Reconstruction and Development (IBRD). The credits have an average maturity from 10 to 40 years, the favourable period being 5 to 10 years.

On the whole, the finance made available along ODA lines is far from enough to meet the needs of developing countries in the foreign borrowing. On top of that, the USA, the biggest donor in the capitalist world, pursued a tough line of limiting state financing in the 1970's and 1980's. In the 1976-1981 period the share of the US GNP allocated for these purposes was falling every year by 5.1 per cent. International financial organisations, too, were limiting their crediting to the developing world. That was due to the failure to fulfil the programme of augmenting their financial resources.

The International Bank for Reconstruction and Development also toughened its crediting policy. In its preliminary plans for 1982-1986 the IBRD was going to grant credits to developing countries to the tune of $90.5 billion, but later the plans were adjusted and the crediting programme for that period was approved after it was slashed down to $61.4 billion. Meanwhile, as was seen from the special study conducted by the IBRD in 1983, on average $130 billion a year was required by developing countries for financing their energy projects alone. But the real IBRD

allocations for these purposes did not go beyond 3 per cent of that sum. The IBRD's restrictive practice was a result of direct US influence, because the most important source of finance for the bank was the American capital market. The latter was exhausted by the mounting state loans (caused, among other things, by the continuous rise of military spending). This led, on the whole, to a 40-per cent reduction in the real size of the IBRD and IDA funds designed for granting soft loans.

The line of limiting access for developing countries to the sources of relatively favourable state financing enabled private banks in industrialised countries to become their chief creditors. Now they account for about three-quarters of all granted loans. A few thousand private banks take part in crediting operations, but the main role there is played by 30 major banks based in the United States, Britain, Japan, and the FRG. They account for about a half of all the finance which is made available.

The increased role of private banks greatly worsened the crediting terms. From 1973 to 1982, the average interest rate on credits and loans received by developing countries went up from 6.6 to 11 per cent (the interest on private credits reached 13 to 15 per cent). The average term of repayment was reduced in that period from 18.6 to 14.4 years (the term for private credits was 9.4 years in 1982).[3]

The situation was made even worse because most of the loans and credits provided by private banks and part of state loans were granted in accordance with the floating basic rates which were changing with the fluctuations on the world market of loan capital: As a result, the annual growth of interest rate (which was especially intensive in the late 1970's and was automatically transmitted to early 1980's) to payments on the credits received earlier. Thus, the average rates on all categories of loans and credits received by the developing countries went up from 5 per cent in 1972-1973 to 10 per cent in 1982, while the floating basic rates rose from 8.3 to 17 per cent. Meanwhile the share of the latter in the aggregate medium- and long-term foreign debt of the developing countries increased from 11.6 per cent in 1973 to 37 per cent in 1982.[4]

Special mention should be made here of the high interest rates policy pursued by the United States in the 1970's and 1980's. The jacking up of interest rates to finance its mammoth arms spending at the expense of others cost the developing countries dearly. The rise of the interest rate by one per cent announced by the USA resulted for the developing world in an increase of its debt burden by 3 to 4 billion dollars. Besides, this financial policy of the USA was among the causes of the outflow of national capital from the developing countries. According to the Bank of International Settlement, the capital drain from Latin America alone totalled $150 billion from 1977 to 1983.[8] Some estimates show that the outflow of national capital from Latin American in 1974-1982 roughly equalled 40 per cent of its foreign debt growth.

So, on the world loan market the developing countries were confronted with a fairly tough crediting policy pursued by the centres of capitalism. This policy could not but aggravate the monetary financial situation of the developing countries and their balance of payments.

## 4. The Balance of Payments Problem in Developing Countries

The balance of payments is the ratio between actual payments made by a country to foreign states and the sums received by it from other countries within a definite span of time (a year, a quarter, or a month) or by a fixed date. The balance of payments consists of three sections:

1. The balance of trade—i.e. the proportion of the export and import of goods on which payments are actually made.

2. The balance of services and non-commercial payments—i.e. payments and receipts on transport, insurance, post and telegraph, brokerage, tourism, cultural exchange, personal remittances (wages, inheritance, scholarships, and pensions), on the maintenance of trade and diplomatic missions, interests and dividends on investment, payments for licences and technical aid, fees, and military expenditures abroad. All these different operations are termed 'invisibles'.

The balance of trade, and the balance of services and non-commercial payments form the balance of trade on current accounts.

3. The balance of movement of capital and credits—i.e., the inflow of foreign investment and loans, the granting of credits to foreign contractors, and capital investment broad.

Apart from the balance of payments, there exists also the balance claims and liabilities which include not only actual payments and receipts but also outstanding claims and liabilities. The balance of claims and liabilities is the ratio between the claims and liabilities of a given country to foreign states as of a fixed date (for instance, as of the start of a year) or over a definite period (say, over a year). A favourable (active) balance of claims and liabilities indicates the size of the credit granted by a given country and the sum of the investments it made abroad or the sum of its debt paid back to foreign creditors. An unfavourable (passive) balance shows the size of credits and foreign investments received by a country or repaid by its debtors. Thus the balance of claims and liabilities as of a fixed date shows the position of a state as a lender or debtor.

This balance over a definite period, say, over one year, reflects only the dynamics of the indebtedness and claims of a country in relation to other states. Therefore to assess the international balance of payments of a country one is to know the balance as of a fixed date which indicates the proportion of all money claims and liabilities of a country, no matter when they originated. The balance as of a fixed date and that over a definite period usually do not coincide.

When analysing the balance of payments of developing countries, they are to be subdivided into two groups. The first one includes most of the oil importing countries which have the chronic deficit of their balance of payments. The second group includes oil producers and exporters (Saudi Arabia, Iran, Iraq, Qatar, Kuwait, Libya, Algeria, Nigeria, Venezuela, Indonesia, Gabon, Ecuador, and the United Arab Emirates), whose balance of payments was favourable

throughout the 1970's until 1982, which enabled them to accumulate large currency reserves.

Recent years have seen a considerable increase of the balance of payment deficit in most of the oil importing developing countries (see Table 1).

The increasing unevenness of the balance of payments was due to a number of factors. It was caused, among other things, by the adverse foreign trade conditions for the developing countries. Their export lagged far behind their import, which had been caused by the protectionist policy

*Table 1*

**Oil Importing Developing Countries — Balance on Current Account[a] (in billion dollars)**

| | 1970 | 1975 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---|---|---|---|---|---|---|---|
| Balance of trade | —3.8 | —26.3 | —49.8 | —65.8 | —42.6 | —28.8 | —29.1 |
| Balance of profit on investment, including payment of interest on credits | —3.7 | —8.4 | —26.8 | —36.4 | —41.1 | —44.0 | —45.7 |
| Balance on current account | —9.0 | —34.2 | —66.9 | —84.3 | —65.9 | —49.2 | —49.1 |
| Inflow of capital | 7.8 | 22.6 | 39.4 | 76.6 | 59.0 | 49.0 | 49.7 |

pursued by the industrialised capitalist states, which hampered the sale of many export goods for Asian, African, and Latin American countries (especially the output of their newly-built industries). That had been caused also by the unfavourable proportion between export and import prices. The prices of their traditional export goods tended to decline, while the prices of the manufactured goods they imported were climbing.

The developing countries lose about $13 billion every year due to the adverse proportion of export and import prices, and about $10 billion as a result of restrictions imposed on their export. It has been estimated by UNCTAD experts that over two decades between 1965 and 1984, because of the protectionist policies pursued by the centres

of capitalism, the losses incurred by the poorer countries, ran into $700 billion. The growing trade deficit was covered by foreign credits and loans, which brought about abrupt increase in foreign debts.

In the early 1980's, when the deficit of the balance of trade reached its high, the developing countries were compelled to take measures to improve it. By the mid-1980's, the deficit in their trade lessened, but not because the trade conditions had been improved or because the West had made appreciable concessions, but mainly as a result of a sharp tightening of import restrictions and a decrease in the import of goods badly needed for a normal operation and growth of the national economy.

But beginning in the latter half of the 1970's the balance of payments in the developing countries was determined ever more by their need to spend the growing financial resources on repaying the foreign debt. That prevented them from balancing current account—it still showed a big deficit. In other words, the heavy economic sacrifices the developing countries made by limiting their import to the utmost failed to produce the desired effect. No wonder, these countries had to spend immense sums on servicing their foreign debts.

As for the oil exporters among the developing countries, they were equally faced with tendencies reflecting their unequal position within the system of international economic relations, even though their balance of payments was entirely different.

In the 1970's, due to the rise of oil prices the OPEC countries registered a substantially favourable balance of trade. In 1980, the trade balance of the OPEC countries reached $100 billion against $10 billion in 1972. That enabled them to accumulate immense currency reserves ($85.5 billion in 1981) and gold assets (1,300 tons), and so to become exporters of capital. The foreign assets of the OPEC countries in 1982 were estimated at $395 billion including $170-190 billion of Saudi Arabia, $90-100 billion of Kuwait, and about $50 billion of the United Arab Emirates.

But in the 1980's the situation greatly changed. Oil

demands dropped, and so did the prices (from $260 per ton in 1980 to $80-$100 per ton in 1986). That resulted in a triple reduction of oil export revenues. The balance of payments of the OPEC countries was considerably affected. In the 1980's the combined balance of payments of the OPEC countries was invariably negative. Even Saudi Arabia, Kuwait and the UAE requistered the adverse balance of payments (in 1983 it amounted to $7 billion, in 1984 to $3 billion, in 1985 it remained on the 1984 level, and in 1986 it went down to $2 billion).[7] Like other developing countries, the oil exporters had to cut their import, and the foreign debt of many of them sharply increased (above all the debts of Mexico, Venezuela, and Nigeria). The foreign assets of the major oil exporting countries began to dwindle (primarily those of Soudi Arabia and Kuwait).

## 5. The Debt Burden of Developing Countries

All these processes resulted in a sharp rise of the developing countries' indebtedness. As compared with the mid-1950s, their foreign debt shot up about 100-fold and reached almost the $1 trillion mark by the start of 1986. Of course, one should take account of the high rate of inflation typical of capitalist economy, especially in the 1970s and 1980s. But even considering this factor, the foreign debt increased in real terms over that period not less than 20 times, by far exceeding the general economic growth rate of the developing countries.

The foreign debt has extended to a large number of countries. Among the debtors are both the countries that are most backward economically, such as Sri Lanka, Malawi, Niger, Senegal, Sudan, Togo, the Dominican Republic, Bolivia, and the recognised economic leaders in the developing world, such as Brazil (whose foreign debt was $102 billion by the end of 1986), Mexico ($100 billion), Argentina ($50 billion), the Philippines ($27 billion), Egypt ($19 billion), and Nigeria ($19 billion). In South and Southeast Asia practically all countries are under heavy debts. By end of the 1985 the debt of Indonesia was $32.5

billion; that of India, $30,7 billion; Thailand, $12 billion; Pakistan, $10 billion; Malaysia, $9 billion; Sri Lanka, $8 billion; and Burma, $2 billion.

The foreign debt of the developing world as a whole makes up almost one-third of its gross product. These are median figures. The foreign debt of each country within a dozen of countries equals 60 to 80 per cent of its GDP and in some cases even exceeds it. In many Asian countries the debt burden on their GDP is above the 35 per cent ceiling.

Another generally recognised limit of 20 per cent in repayment of a foreign debt in relation to currency returns from the export of goods and services has been exceeded by a broad margin. This index is called the debt servicing limit (*DSL*). This is how it is calculated:

$$DSL \text{ (per cent)} = \frac{DRS}{CR} \times 100,$$

The *DRS* stands for the debt repayment sum, and the *CR* for the currency returns from the export of goods and services.

According to UNCTAD data, the debt servicing limit in countries like Pakistan, Burma, Tanzania, Zimbabwe, Madagascar, Morocco, Ecuador, and Peru ranged between 30 to 50 per cent. The biggest debtors had to set aside for this purpose over a half of their currency returns. The Philippines spent 66 per cent of its export receipts to repay the foreign debt in 1985-1986. It should be remembered that because of the great difference among developing countries, their chances to endure the debt burden are far from the same. Even a small foreign debt sometimes represents an unbearable burden for a developing country if it is a small-sized economy with limited export returns and is badly short of resources. Zaire announced in 1975 that it refused to repay its debts when its *DSL* was 11.7 per cent. Meanwhile Mexico remained solvent up to 1982, though its *DSL* approached 60 per cent.

All the developing countries have to spend $120 to $150 billion annually on debt repayment. This is a mammoth burden on the weak economies of developing countries. The peoples of Asia, Africa and Latin America are left without

the means they need so much for economic growth and for combatting poverty, diseases, famine, illiteracy, and unemployment. Suffice it to recall that, according to UN data, 700 million people in the developing world starve, 800 million adults are illiterate, 250 million children do not go to school, and 1.5 billion have no opportunity to receive medical care.

The economic recession which the centres of capitalism experienced in the early 1980's hit hard at most of the developing states as well. As usual, international capital sought to smooth away its own difficulties by heaping most of them on the periphery of the world capitalist economy. In those conditions an ever increasing number of debtor countries found themselves unable to meet their foreign debt obligations. In 1982 alone, 35 states failed to pay on time about $140 billion—a record high in international crediting practice. Western banks were compelled to extend the maturities of the debt for 24 countries to the tune of $67 billion and offer $30 billion of new loans as 'rescue operations'. To compare: the preceding quarter of a century saw 60 instances of such extension (less than three times a year) for 21 countries, and the sum of postponed foreign debts amounted to $32 billion.

Thus the monetary financial difficulties confronting developing countries grew into a most acute debt crisis. It is a serious threat not only to the economies of Asian, African and Latin American countries, but also to the entire crediting system of modern capitalism. This situation is a source of great concern in the capitalist world.

Some mass media of the creditor countries seek to shift the blame for the debt crisis on the debtors. In the Western press and at international meetings and conferences one can often read or hear a host of accusations of irresponsibility, extravagance, poor management, and insufficient efforts to adapt to the worsening world economic situation. The purpose of all these accusations is not only to shift the blame for the debt crisis onto developing countries, but also to make them take the whole burden of the debt crisis consequences and work to overcome them.

This profoundly selfish stand of the indistrialised coun-

tries set off a tide of indignation in the developing world and is censured by the progressive and democratic forces. 'Our people,' said Cuban leader Fidel Castro, ex-chairman of the non-aligned movement, 'are not to blame either for underdevelopment or for the debts. Our countries are not to blame for having been colonies, neocolonies, and banana, ore or oil republics compelled to produce raw materials, exotic goods and fuel at low prices and with cheap labour.'[8]

## 6. Economic and Social Aftermaths of the Foreign Debt Crisis

The debt crisis has far-reaching consequences for the developing countries. It has resulted in hampering their economic growth and social progress worsening the political situation and exacerbating numerous contradictions. This crisis has overgrown purely financial limits to affect practically every sphere of life in developing countries. Now it is a key political and economic problem of our time, a global problem.

The debts are used above all as a means of intensifying the financial exploitation of developing countries. Western creditors have come out to force the developing countries by any means to repay the main debt and pay a high interest on it. Of course, international capital can no longer resort to measures it used in the past. In 1902, for instance, Venezuela, which was in a hard financial situation, declared a moratorium on its foreign debts. Then the creditors—Britain, Germany and Italy—sent a joint naval squadron to the Venezuelan shores. All financial problems were 'settled' by having seized, as a compensation for the delay in debt repayment, customs warehouses with goods meant for export. But now the time of colonial brigandage and diktat has gone never to return. Gunboat diplomacy has given way to more sophisticated, but not less effective, methods—economic and political pressure and blackmail. Availing itself of the great dependence of the developing countries on foreign financing, the West threatens them with an all-out financial blockade if they fail to pay their debts. 'For debtor nations, the penalty for outright refusal to pay would be harsh', the *Business Week* warned. 'Such

an action,' the magazine went on, 'would reduce the debtor country to little more than a barter economy and make its ships and aircraft vulnerable to seizure by the banks.'[9]

The pressure of financial exploitation keeps mounting. In 1986, the developing countries' payments of interest alone accounted for $62 billion. If we add to this the repayment of the main debt, then it appears that in 1986 the developing countries paid the centres of capitalism about $120 billion, which is four times as much as the financial resources they received from abroad in 1985. The exhausting of Latin America and other developing regions has reached, according to some estimates, the 'unbearable limit'.

It may be stated, on the whole, that the developing world has never before been subjected to so severe financial exploitation. Loan capital has the main role to play in it. It is through this channel that the largest part of resources is being pumped out of the periphery to the centres of capitalism, thus becoming one of the major obstacles in the way of the economic and social progress of the newly-free nations.

The debts are used by the Western creditors to interfere in the economic policies of those nations and to compell them to make all kinds of concessions. An important role here is played by the International Monetary Fund as an inter-government monetary and crediting organisation designed to regulate currency relations among the member countries and grant them short-term loans when they are faced with currency difficulties caused by temporary deterioration of the balance of payments.

The IMF acts as an intermediary between the centres of capitalism and the credit banks, on the one hand, and the developing countries, on the other, on the key issues of foreign debts. The 'stabilisation programmes' imposed by the IMF during negotiations on definancing foreign indebtedness are aimed at reducing the public sector, cutting back social spending, devaluating national currencies, granting various benefits and concessions to foreign capital, and freezing wages. Under pressure from the IMF some of the developing countries had to revise considerably their eco-

nomic policy, which is fraught with grave economic and social complications.

The example of the Philippines is quite revealing. In 1985-1986, that country signed an agreement with the IMF on refinancing its foreign debts. In return for the extension of the maturity of the debt the Central Bank adopted a tough crediting policy, limiting capital investment. A liquidation of state-run enterprises began. The government cancelled state monopoly on the sale of sugar. The shares of the National Sugar Company, the largest state corporation in the country, were sold out to private companies. Late in 1986, President Corazon Aquino announced a transfer to the private sector of a few hundred state companies with a combined issued capital of about 650 billion pesos within the next five years. Up to 300 state companies were sold by auction already by the end of 1988. Meanwhile foreign capital has grown active and is building up pressure on national enterpreneurs there, which leads to the spread of bunkruptcies among national companies and brings about the growth of unemployment.

On the whole, the financial and crediting policy pursued by industrialised capitalist powers is aimed at preventing a cardinal solution of the foreign-debt problem and making indebtedness a constant factor binding the debtor countries securely to their creditors.

## 7. The Crediting Strategy of the West and the National Interests of Developing Countries

The debt crisis that hit the developing world, far from wearing off, is growing increasingly acute. Extending to ever new countries, it is accompanied by mounting foreign debts, and ever bigger problems of repaying them arise. This situation is a direct outcome of the debt strategy employed by Western creditors. Though in recent years they agreed to a partial extension of the maturity of the debt and to granting new limited credits, their actions leave no hope for a cardinal solution to the debt problem. Two main elements underly their negotiating position on refinancing the foreign debts: first, they form a united front

of creditors to oppose every debtor, and second, they dictate extremely tough conditions.

The analysis of the agreements signed under the IMF aegis between the creditor banks and the developing countries prompts the following conclusions.

First, refinancing makes debt servicing a great deal more costly: all agreements envisage an increment of the existing basis interest rate (a so-called 'spread') and additional commission payments to the banks. These are not small sums, for the minimal 'spread' level in 1982-1985 was 1.95 per cent of the Libor (London inter-bank rate) and 1.05 per cent of commission payments. Considering the growing monetary-financial difficulties facing the developing countries, the banks agreed to a partial reduction of these increments only in 1986-1987. Under the agreements signed with Brazil and Mexico in 1986, the 'spread' was cut back to 1.125 per cent.

Second, agreements on refinancing the debt are only a short-term solution of the problem, because their duration normally does not exceed three years (with the exception of new credits granted for 6 to 8.5 years). The banks hold the debtors 'on a short leash', so to speak, checking if payments are made in due time, and compelling the debtors regularly to resume negotiations on postponing debt repayment.

Third, in most cases negotiations concern the main sum of the debt and do not deal with interest payments (it is only recently that transnational banks began to grant limited credits for these purposes).

Fourth, in view of the heavy indebtedness of the private sector in developing countries, the creditor banks demand state guarantees for the money they grant.

The press in industrialised countries writes much about the 'difficulties' confronting international banks as a result of the debt crisis, the great risk involved, and the great responsibility of the creditor banks. But no mention is made that the consequences of the crisis are all too different for the creditors and the debtors. As regards the transnational banks, the superprofits they gain from loan operations in the developing world more than compensate

for their 'difficulties'. They received from $70 million to $130 million of profit in Latin America alone in 1983 due to 'spreads', commission charges, raising interest rates, and other measures.

Under the pressure of debtor countries crediting banks have been compelled to cut commission charges and spreads. However, foreign debts refinancing operations are still extra charged, which results in multimillion losses for debtor countries.

Besides, international banks resort to blackmail and reprisals with regard to the developing countries which found themselves unable to meet the terms imposed on them. On observing the first signs of any infraction of obligations the creditors discontinue the crediting, paralysing the debtor. Thus, the IMF suspended the granting of a next portion of a loan in 1983 because the Brazilian government had failed to meet all the IMF demands. That measure was responded to as a signal by world commercial banks, and they, too, suspended crediting for Brazil. The same method was used against Argentina in 1985. Under the pretext that Argentina had failed to comply with the 1984 agreement, the IMF discontinued providing credits for that country. And international banks followed suit. The US government announced a cessation of the talks on granting a credit to Argentina out of the US treasury. In 1987, Brazil, faced with financial difficulties, was compelled to suspend the payment of interest on its foreign debt, and a veritable credit blockade was launched against it.

In this way international banking capital makes use of the mechanism of 'overcoming' the foreign debt crisis in order to entangle the newly-free nations ever more in debt obligations and step up their economic exhaustion.

The monetary-financial difficulties of the Third World are compounded by the involvement of many developing countries in the arms race. The Moloch of militarism increases still more the already intolerable burden of the foreign debt acting as a powerful brake on their economic progress.

*Questions for Self-examination*

— What is an international credit and how it affects international economic relations?

— What are the main internal causes behind the shortage of financial resources in developing countries?

— What are the signs of developing countries' inequality in the international crediting system?

— What are the main forms of credits granted to developing countries?

— What are the balance of payments and the balance of claims and liabilities?

— Is the balance of payments in developing countries adverse or positive?

— What are the proportions of the Third World's foreign debt?

— What are the main signs of the debt crisis in developing countries?

*Topics for Discussion*

— International crediting and possibilities for economic growth.

— How do domestic social and economic reforms in developing countries affect the rational use of national financial resources?

— Who is to blame for the foreign debt crisis?

— Ways of solving the debt problem in the developing countries.

CHAPTER 11

# Militarism vs. Development

It has been widely recognised in the world today that there is close interrelationship between disarmament and development. Nowadays every state is to a certain degree adversely affected by the arms race and the resultant waste of national wealth. No group of countries can lose by effecting genuine and all-round disarmament. Such a process would enable industrialised capitalist countries to make greater use of the scientific and technological achievements and of scientific personnel for civilian production, which would expand payable demand and stimulate production growth.

Disarmament can help greatly to solve such acute problems in the industrialised capitalist world as reduction of state budget deficits, curbing inflation, and combating unemployment, poverty, and homelessness. The socialist countries could use disarmament for speeding up their economic and social development and concentrating their efforts on better satisfying the growing requirements of their people, ensuring the technical reconstruction and modernisation of production and introducing advanced technologies and equipment.

A cessation of the arms race could greatly improve the economic situation in the newly-free countries and impart a powerful impetus to their advancement along the path of economic and social progress. The greatest effect, of course, could be achieved in case of general disarmament. But even a partial reduction of the vast resources involved in military preparations, above all in major industrialised

states, could greatly affect the present and future development of the Third World.

## 1. The Major Problem of Our Time

Mankind has no task today more important than that of averting a world nuclear conflict which can destroy all life on earth. This task is made even more urgent by the unprecedented scope of the arms race which pushes our civilisation to inevitable catastrophe by the logic of its development.

Vast amounts of weapons have been strockpiled in the world. In the late 1970's, the total yield of all nuclear potentials exceeded that of one million Hiroshima bombs, that is, 3 tons of TNT per every inhabitant of our planet. According to UN estimates, in the post-war years mankind's direct spending on the arms race accounted for $10 trillion. In the mid-1980's, the annual arms spending in the world reached $900 billion. The rate of arms spending has outpaced the growth of the world GNP. More than 27.5 million people are on active duty with the armed forces. Besides, over 70 million people are employed in military production. More than 3 million scientists and engineers work in the military sphere which devours some 40 per cent of the world spending earmarked for scientific research. On the whole, the proportions of present-day military production are such that further progress of mankind is a problem even in peacetime, because the arms race burden is now comparable with material damage caused by a world war.

However, despite the immense military potential, militarism keeps gaining momentum. The USA intends to spend about $2 trillion on the Star Wars and on building up and modernising its military might in the 1987-1992 period. Its example is followed by its closest NATO allies. The FRG government has approved a programme of strengthening its armed forces until the year 2000. The project will cost about one trillion Deutsche marks. The 20-years military programme of Great Britain is estimated at £360 billion. If the military spending of capitalist countries

keeps growing at the present rate, they will have wasted another $9 trillion by the end on the century.

The chief driving force and instigator of the arms race and of an increased military spending are military industrial complexes, including—apart from military departments, military-industrial monopolies and the financial groups associated with them—various government agencies, research centres, and political groupings. So, the military-industrial complexes are a concentration of large military, research, economic, and political forces.

A large part of the production capacities of the centres of capitalism work for the arms race. Military business has swollen to immense proportions. In the United States arms are manufactured by over 120,000 companies, including more than 100 super giants. About 80 industries employing over 5 million people work to fulfil the Pentagon's orders. In the FRG more than 5,000 factories and firms manufacture arms and military equipment. Military production rests on long-established industrial dynasties like Thyssen, Krupp, Flick, Quandt, and Siemens. About 5,000 industrial firms are engaged in manufacturing military equipment in Britain.

The military-industrial complex is shaping a world capitalist military economic system. Military alliances (NATO being its nucleus), as well as numerous organisational, research, technological, technical, production and other relationships will be its backbone. Within this system arms are sold, military industry is built and modernised, technologies are transferred, and personnel is trained. The USA leads the world military economic system of capitalism. Its military-political hegemony is used as a powerful instrument of bringing pressure to bear on its closest partners and on most of the other capitalist countries.

The ruling elite in the West motivated the stepping up of the arms race by the need to guarantee security from an alleged Soviet threat, aggressiveness and superiority in nuclear missiles. In reality, there is approximate military parity between the Soviet Union and the United States. This is how the Soviet-American strategic balance looked like as of January 1, 1988[1]:

| | USSR | USA |
|---|---|---|
| ICBM launchers including: | 1,390 | 1,000 |
| MIRVed ICBMs | 812 | 550 |
| SLBM including: | 942 | 672 |
| MIRVed SLBMs | 388 | 640 |
| Total ICBMs and SLBMs, including: | 2,332 | 1,672 |
| MIRVed ICBMs and SLBMs | 1,200 | 1,190 |
| Heavy bombers including: | 162 | 588 |
| HBs fitted out for CMs | 72 | 161 |
| Total ICBM launchers, and SLBMs and HBs including: | 2,494 | 2,260 |
| MIRVed ICBM launchers and MIRVed SLBMs, and HBs fitted out for CMs | 1,272 | 1,351 |
| Total warheads on strategic missiles and aircraft | 10,000 | 14,000—16.000 |

Note: ICBM—intercontinental ballistic missile; SLBM—submarine-launched ballistic missile; MIRV—multiple independently targetable re-entry vehicle; HB—heavy bomber; CM—cruise missile.

It is quite obvious that the confrontation of these vast, though approximately equal in size, nuclear-missile potentials is in itself a serious threat. The present level of the balance of nuclear potentials of the two countries ensures not so much equal security than equal threat to both of them. The continuing arms race will inevitably increase this equal danger to a point when even parity will no longer serve as deterrence.

The treaty on the liquidation of medium- and shorter-range missiles, known as the INF Treaty, was signed at the Soviet-American Washington summit in December 1987. Under the treaty 826 deployed and undeployed Soviet and 689 American medium-range missiles are to be destroyed. At the same time 926 deployed and undeployed Soviet shorter-range missiles and 170 US missiles of this class are also to be scrapped. Nuclear warheads are to be destroyed along with the missiles, and effective verification measures have been planned. The USSR and the USA agreed in principle at a 1988 meeting in Moscow that the

number of strategic missiles would be cut by half. The INF Treaty and the treaty on strategic offensive arms are important in that they envisage, for the first time in history, a liquidation of lethal weapons, thus marking a real step towards disarmament. However, advancement towards a safe world requires new and greater efforts.

But there are people in the West who are planning greater armament to make up for the reductions. In particular, it is planned to deploy in Europe additional US aircraft carrying improved cruise missiles. After the Washington and Moscow summits, where the prohibition of chemical weapons was also discussed, the United States started the manufacture of binary weapons, which is a new and extremely dangerous type of chemical arms. This is a sign that the enemies of detente have come out to aggravate the international situation and so to prevent the new important agreements from being effected.

There are influential forces in advanced capitalist countries who pin great hopes on the arms race, believing that in this way they will achieve military strategic superiority over the USSR and its allies. They expect that costly modernisation of arms and the USSR's desire to maintain the military strategic balance will exhaust the Soviet economy at the time of perestroika and narrow down opportunities of social and economic progress for the socialist community. But even though military spending really is a heavy burden on the socialist countries, the hopes for undermining the socialist economy in this way are obviously vain.

Military programmes are an immense source of enrichment for the military-industrial complex. This largely explains why military programmes are drawn up in the West. By improving arms and making them more sophisticated the military-industrial complex jacks up their prices. In the late 1960s, the B-52 strategic bomber cost less than $8 million in the United States, whereas the B-1B advanced bomber costs $440 million. In the 1970's, the price of one Minuteman III intercontinental ballistic missile was slightly over $9 million, whereas now the MX missile of a similar class costs over $70 million. The seaborne Harrier

fighter is four times as expensive as the Hunter which it replaced. All in all, in the late 1970's and the first half of the 1980's, the prices of arms and military equipment in the United States were rising 1.5 times faster than the price index of industrial production. This growth had been caused largely by fixing deliberately too high prices, which was a widespread practice among arms suppliers.

In these conditions military-industrial monopolies gain huge profits. By some estimates the profit per unit of their equity capital is on average 25 per cent in the United States. But, as experience shows, military-industrial companies seeking to minimise taxable sums (even though taxes are lowered for them), effectively conceal their real profits, which sometimes exceed the officially announced ones by 100-200 per cent. Furthermore, apart from the immense profits paid for working under military contracts, the military-industrial corporations get sizable subsidies from governments, while the prices of the delivered output include all kinds of additional payments. This goes to show how lucrative military programmes really are. So these are the real motives behind the continuing arms race in industrialised countries.

On the contrary, demanding an end to the arms race the socialist states are doing all they can to reduce to the minimum the negative political and economic effect of the high spending on arms and to simultaneously maintain their defence potential on a level sufficient for reliable security against possible aggression.

## 2. The Arms Race and Developing Countries

The developing world, too, is not a detached on-looker in the arms buildup and is drawn ever more into the military preparations drive. Its arms spending has increased 12-fold over the past post-war decades: in 1955 the countries of Asia, Africa and Latin America spent $10 billion for military purposes; in 1960, $20 billion; in 1970, $60 billion, in 1975, $80 billion; in 1985, $120 billion[2]. The growth rate of their military spending was higher than that of advanced capitalist countries. As a result, the share of

the developing countries in world military appropriations notably increased. In 1960 their share was 4.5 per cent, and now it has reached 19 per cent. The rate of militarisation by far exceeds that of general economic development, which compels these countries to set aside ever more material and financial resources for military purposes. The share of the developing countries' military spending in their GNP is larger than that of industrialised capitalist states.

The growth of military expenditures is accompanied by the fast increase of the numerical strength of the armed forces. In 1987, 11 million people were on active duty in the armed forces of the developing countries, which was 40 per cent of the troops in the armed forces of the world. Considering that the developing countries have to spend on every serviceman ten times as much as the per capita income of the civilian population, it becomes obvious that these large armed forces are a staggering burden on the weak economies of the nascent states. In some of them per capita military spending was higher than even in the NATO countries. In Saudi Arabia, for instance, it was $1.862, in Oman $1,012, in Qatar $2,540, and in Kuwait $693, while the USA spent $632, the FRG $434, and France $492 in 1985.

Looking into the causes behind the growing militarisation in the developing world, one should not ignore objective internal factors, such as the presence of political and economic contradictions, territorial claims, attempts by some governments to settle disputes not through negotiations but by the force of arms. In some cases this leads to devastating and deadly conflicts. Among most recent instances of this is the Iran-Iraq war whose death toll was over one million. Moreover, it caused economic damage to both countries to the tune of about $500 billion.

In most cases the developing countries' ever deeper involvement in the arms race is largely caused by outside factors which destabilise the military and political situation in Asia, Africa and Latin America. They also provoke mutual distrust and sometimes lead to severe conflicts in the Third World. A most negative effect is produced by the policy of tying developing states to aggressive military alliances

and the building of a network of military bases and other military projects on their territory. The USA, for instance, has about 1,500 such bases and other facilities. Of them, about 100 air bases and airfields designed for combat planes, about 30 naval bases and ports equipped for receiving warships, and 50 depots with arms, including nuclear arms, are located close the eastern and southern borders of the USSR.

The military-industrial complex of advanced capitalist states pushes the developing countries onto the path of arms manufacture. Only two decades ago military industry was practically non-existent in the developing world, but now, arms manufacture capacities, including those turning out fairly sophisticated types of combat equipment, have been built in 30 developing countries with the help of foreign military concerns. Thus, combat aircraft are manufactured in 16 developing countries, warships in 20, missiles in 8, and battle tanks and armoured personnel carriers in 8 countries. All this gives a chance to the military-industrial monopolies of the United States and other Western powers not only to spread their influence in the developing world, but also to gain much more profit. The ties between the military-industrial complex and the manufacture of arms in developing countries are being extended and, on that basis, an alliance of the military-industrial monopolies of the West with the financial-industrial elite of the developing countries is being formed, an alliance bent on building up military-political tensions in various parts of the Third World to keep up the demand for arms.

The sharp increase in arms supplies to developing countries from the West has far-reaching political and military consequences. According to approximate estimates, the USA and its West European allies in NATO sold to developing countries 200 billion dollars' worth of weapons between 1975 and 1984.[3] They normally sell most up-to-date weapons, which means that the arsenals built with their help in many developing countries by far exceed what is required for defence and therefore present a threat not only to the neighbour countries. In some cases such policy produces paradoxical results. A large contract for the pur-

chase of costly military equipment, including 24 F-16 fighter-bombers, was imposed on Venezuela, which has never been at war with its neighbours. An agreement on the delivery of advanced combat planes costing $1 billion has been signed with Singapore.

Western arms manufacturers are most active on the markets of South and Southeast Asia and in the Middle East. They dispatched 4,000 combat planes, 2,500 battle tanks and artillery guns, 22,000 armoured personnel carriers, and 26,000 anti-aircraft missiles to that region from 1973 to 1980 alone. The diversity of combat equipment supplied to Asia was widely increased. That equipment mostly included the latest sophisticated weapons, such as modern supersonic aircraft, missiles, and submarines.

Of late, large arms supplies have been effected by the United States to its closest allies in Pakistan. Under a 6-year programme Pakistan is expected to receive from the Pentagon 4,000 million dollars' worth of weapons. Other hardware, including helicopters, battle tanks, armoured personnel carriers and artillery guns, is poured into Pakistan. It became known in 1987 that Pakistan had secretly purchased a modern set of facilities for uranium concentration, which may enable it to manufacture ten atom bombs annually. No wonder, then, that the US-incited rearmament of the armed forces of Pakistan, the purchasing by the country of combat hardware obviously exceeding its defence needs, and the development of nuclear arms cannot but cause legitimate concern among its closest neighbours (India above all), which respond by strengthening their military potentials and take other defence measures. As a result, the subcontinent is pushed towards the arms race, to increasing its already heavy burden of militarism.

The example of the Asian region is not the only one. Large arms deliveries by the USA to some Central American countries, such as El Salvador and Honduras, and the US aggressive course towards Nicaragua have created an explosive situation in Central America. In this situation Nicaragua has to strengthen its defence, thus diverting to it the means it needs so badly for its economic, social and cultural development.

## 3. The Economic and Social Consequences of the Arms Race

Militarism is a powerful brake on economic and social progress. The ruinous consequences of the arms race extend to the entire world economy, affecting capitalist and socialist countries alike. It has hit the US economy hard, and there is every reason to state that the negative trends in the United States, seen in the declining competitiveness of US goods, in a rapid growth of its trade deficit and in the spread of crisis and stagnation phenomena in some industries are a result, above all, of the long-term effects of militarisation and the high level of military production. The US arms spending amounted to $7,620 billion between 1948 and 1987 (in 1982 prices). The immense size of this sum can be visualised if one compares it with the combined money equivalent of the entire US wealth in 1982 (with the exception of arms themselves, clothes and durables) estimated at $7,992 billion. As one economist put it, this money would be enough to build another United States of America.

These staggering sums could obviously be used for better purposes in the US economy which is confronted with many grave problems. Suffice it to recall the disastrous state of the US steel industry with dozens of furnaces idling and hundreds of thousands of unemployed. It is estimated that it would cost some $100 billion to modernise and restructure this industry. Or another example: about $40 billion will have to be invested in improving the municipal infrastructure in New York city alone. But, so far, there are no sources of financing these neglected sections of the US economy.

Militarisation is more than a waste of vast financial resources. It brings considerable changes into the economic process itself, making it irrational, because free competition, which is at the basis of the entire capitalist system, is greatly limited in military production operating under state contracts. Indeed, in the civilian sphere the firms are interested in cutting the costs, and making more rational use of raw materials, financial resources and the work force,

in increasing labour productivity and using up-to-date technologies. Competition compels them to procede in this way. In the military sphere, on the contrary, the producers tend to deliberately highten the costs which are fully compensated by the state and to use more expensive materials. In some cases they avoid using new equipment for fear of losing capital investments in the event military contracts are not renewed. On the whole, the militarisation of the economy undermines the principles of bourgeois rationality on which the 'usual' process of capitalist social reproduction rests, and creates preconditions for greater economic imbalances and disorder.

The economic and social consequences of the arms race are most acute in the developing countries, where it gives rise to a series of hard economic problems, causing a faster growth of a budget deficit and greater inflation, augmenting the difficulties in the balance of payment and leading to a growth of the foreign debt and a decline of the living standards. In many developing countries military spending is greater than the appropriations for boosting agriculture. The money used for militarisation exceeds the appropriations for medical care 6 times over and those for education, by 200 per cent. One can hardly believe this if one knows that there are hundreds of millions of illiterate people and as many people suffering from hunger and malnutrition, and about half a billion unemployed in the developing world. According to approximate estimates, the $120 billion wasted in Asia, Africa and Latin America on arms would be sufficient for building 300 thermal power stations with a capacity of 120,000 kW each, 300 oil refineries, 1,000 factories producing chemical fertilisers, 1,600 sugar refineries, and 10,000 hospitals or 20 million flats.

So, this is the immense economic and social price the developing countries have to pay for the world tensions. If military spending continues to grow at this rate, the population in the developing world will live even worse in the near future.

The arms race hits the hardest the least developed countries with the smallest per capita GNP. According to the IBRD, these countries spent 19.5 per cent of their

state budget for military purposes, 4.7 per cent on education, and 2.7 per cent on public health in 1983 (in 1972 these figures were 17.2, 12.7 and 4.6 per cent respectively).[4] The state budget deficit (in per cent) in these countries increased as much as their military spending did. This is no mere coincidence. On the contrary, it shows that precisely the increase of military expenditures is the main cause of the growth of budget deficits, with inflation and national currency depreciation being their inevitable concomitants.

Militarisation causes great damage to the economies of Asian countries. Some of them spend a considerable part of their budgets for military purposes. Thailand, for instance, is beset with great difficulties: inflation is increasing, the economic growth rate has notably declined, and many targets provided for in the country's five-year plan of economic development (1982-1986) were not fulfilled, above all those concerning industry. Ever more industrial capacities are unused, bankruptcy is spreading, and so does unemployment. These are the results of the arms race.

Militarism gravely disrupts also the foreign economic relations of developing countries. Arms have an ever greater role to play in their foreign trade. These countries account for about 70 per cent of the world import of weapons. Instead of buying machines, equipment and other goods required for national development and for meeting the needs of the population, they import means of destruction.

Arms export brings fabulous profits to Western death merchants. The prices of weapons are rising every year, while the terms of contracts become ever tougher for developing countries.

A point to note here is that in the comparatively recent past (in the 1950's and 1960's), the United States delivered weapons to its allies in the developing world free of charge, just as military aid. Later, in addition to such gifts it supplied ever more weapons on a commercial basis. In the late 1960's, the balance between 'gifts' and sales (in cash or in credit) was fifty-fifty. And in the 1970's, the overwhelming part of arms deliveries was conducted on a

commercial basis, with the arms prices rising faster than the prices of traditional exports.

The growing import of arms is exhausting the already meagre currency resources of the developing countries and increasing their debts. According to UN data, between 1976 and 1980, one-fifth of the growth of the foreign debt of 20 biggest debtors in the developing world was associated with their purchases of weapons from Western countries. In four of the developing countries this share reached 40 per cent.[5] As estimated by the *South* journal, the debts accumulated due to arms import, accounted for a quarter of the entire foreign debt of the developing world.[6] However, these data more likely understate the real negative effect of militarisation on the monetary financial position of developing countries, since arms deliveries are only a part of what they import for maintaining military machine. Many of the materials used for military purposes are registered in foreign trade statistics as non-military goods. For instance, fuel for combat aircraft or other military machines practically does not differ from the oil products bought for civilian use. The growth of the import of these and similar goods is not officially recorded under the item of military import, though its effect on the balance of payments and foreign debts does not differ at all from that produced by the import of arms.

It must be also stressed that arms deliveries to developing countries are merely one of the ways used by the centres of capitalism to finance their military machine. A large part of the immense profits squeezed by international capital from developing countries is used for these purposes. These profits total some $200 billion a year. There is no doubt that, if it were not for this system of exhausting developing countries economically, Western powers would not be able to spend as much for military purposes as they do now.

## 4. Do the Developing Countries Gain from Disarmament?

None of the present social systems and no state can lose by conducting genuine disarmament. The greatest effect can

be achieved through general and complete disarmament. But a peaceful use even of a part of the resources now wasted on arms can favourably influence the entire world social and economic progress. To stop and reverse the arms race means in the 20th century to provide material conditions for meeting the reasonable requirements of the whole of mankind in food, housing, education, and medical care. All this can be done by using the present achievements in science and technology, not to mention future scientific and technological discoveries. The finance spent on arms during one year would be enough, for instance, for irrigating 150 million hectares of land, which at the present level of science and technology could feed 1,000 million people. It would be enough for building 100 million flats or other comfortable housing for 500 million people a year. It would be enough also for building about 1 million schools for 650 million pupils annually.

A cessation of the arms race could help the developing countries to solve the momentous tasks of overcoming underdevelopment, building up their national economy and accelerating social progress. A cut of their military spending at least by half would provide them with additional resources for social and economic progress equalling all the economic aid rendered by the West. These means, if used for increasing capital investment in the national economy, could help step up the average annual growth rate of their combined GNP by 20 to 30 per cent, as compared with the first half of the 1980's.

Part of the resources thus saved could be spent on agricultural development and production of foodstuffs. The building up of the material, technical and financial basis of agriculture would widen the access for the bulk of producers to modern methods of farming and to the resources required for this sector.

Positive changes could be effected also in foreign economic relations. A reduction of military spending would help normalise world trade in raw materials. US economist S. Dresch has calculated that a reduction of US military spending by 20 per cent (1970 prices) and the use of these resources for expanding the export of civilian goods,

especially machines and equipment, to newly-free countries would increase the demand for molybdenum by 5 to 9 per cent, for iron ore and manganese by 5 per cent, and for bauxites, copper, lead, chrome, tin, and zinc by 2.5 to 5 per cent.[7]

Disarmament would open the way for stepping up economic aid to Asian, African and Latin American countries. In the past decades the Western powers concentrated on military-political and military-strategic priorities in their relations with developing countries, ignoring the economic needs of the developing world. The official aid for development by major capitalist states was reduced (see chapter X).

At present the world community consider the proposals made at the 41st session of the UN General Assembly on instituting an international development fund with the finance released as a result of disarmament. According to the proposals, as soon as an agreement on real cuts in military spending is reached, an international fund is to be established for aid to developing countries. Part of the resources saved by the members of military alliances and other industrialised countries that would be parties to such an agreement would be remitted to the fund.

Disarmament would help greatly to improve the transfer of technologies and to build up the scientific and technological base of the newly-free states. So-called strategic limitations on the transfer of technology would thus be removed. It would provide broader opportunities to all states for solving common human problems which are of top priority of the developing countries (the development of new energy sources and those of the World Ocean, provision of the population with food, environmental protection, and others). Disarmament would make possible special research conducted in order to meet the needs of the developing world, and manufacture of goods in accordance with the social, economic, technological and other conditions in the young states. Indeed, the sphere where the scientific and technical thought can be applied to that end is boundless.

Disarmament with its positive effect on general econom-

ic progress is a sure way of dealing with such important social and political problems as inflation, unemployment, poverty, and homelessness. It can facilitate to a large extent the democratisation of the political situation in each country. One should remember that militarisation has a harmful effect on many political and social processes, on many institutions of power. It leaves a negative imprint on various aspects of social life. It is among the causes of an orgy of reaction, of the violation of democratic freedoms and the intensification of repression against the working people and against the progressives and democrats. As it was pointed out in a UN document, 'the arms race represents a waste of resources, a diversion of the economy away from its humanitarian purposes, a hindrance to national development efforts and a threat to democratic processes'.[8]

Of great significance for the developing countries also are the political aspects of disarmament. Elimination of mass destruction weapons and cardinal reduction of conventional arms narrows down the possibilities of one or several states to impose their will on other nations and to deny them the right to self-determination and a choice of an independent path of development. Disarmament can play a great, if not decisive, part in guarding the sovereignty of states, large and small, against any outside encroachments, and in protecting their right to use their own resources independently. It is a serious factor facilitating the settlement of regional conflicts. Balanced disarmament on a regional level would help eliminate such causes of tensions as mutual suspicion, distrust and enmity. It would lessen the risk of armed conflicts between neighbours and simultaneously help them in starting a political dialogue and pooling their efforts for solving economic and social problems. This, in turn, would help the developing countries to come out of the disastrous state faster and to remove a number of the causes behind potential local and regional conflicts.

## 5. Disarmament and Development: a Hard Path of Struggle

The awareness of the fatal danger of the arms race for mankind—especially now that it is spilling over into outer space—and of its destructive effect on economic progress impels the developing countries to view the problems of peace, disarmament and development in close interrelationship. This position is reflected in many important international documents. The idea of close relationship between disarmament and development runs through all the latest documents adopted by the Non-Aligned Movement. 'The Heads of States or Government emphasised the direct relationship between peace, disarmament and development,' says the Economic Declaration of the 8th Conference of Non-Aligned countries held in Harare. 'They stressed,' the Declaration says, 'that orderly development can only be realised in an atmosphere of peace and co-operation, and in this context reiterated their call for the immediate halting of the arms race, followed by urgent disarmament measures that would release the human, financial, material, and technological resources sorely needed for development.'[9]

Today, the ruling circles in many developing countries become increasingly convinced that the present level of arms spending is unbearable for their economy. This compels them to take measures to limit or reduce this spending. This tendency is already observed in a number of Latin American countries. The leaders of 19 countries of this continent have spoken in favour of a balanced reduction of military spending, having officially recognised it as an intolerable burden on the economies of their states.

Disarmament and development are two interrelated and intercomplementary aspects of international security. Disarmament leads to elimination of all means of mass destruction, to a reduction of the armed forces and conventional weapons, and a limitation of the military potentials of states down to a level of reasonable sufficiency for defence only, and so removes the threat of total annihilation. Disarmament provides material guarantees for establish-

ing an entirely new system of international security and promotes mutual trust and co-operation. In a word, it opens up prospects for genuine peace. As a result, development provides conditions for the continued evolution of human civilisation and helps to solve national and global problems confronting mankind.

The development process extends to the economic, social, cultural and other aspects in the life of society and is designed to raise the living standard and the quality of life due to the progress of national economies and improvement of international economic relations on fair and democratic principles. More reliable international security may be established through disarmament earlier and become irreversible only if it is closely coordinated with activities in the social, economic and cultural spheres, above all with the elimination of most destabilising and explosive elements of underdevelopment and backwardness—i.e. the global problems of poverty, famine, and intolerably poor medical care and education.

The ideas of close relationship between disarmament and development are steadily making their way to public opinion. But one should not fail to see that this is being done amidst acute struggles. Advocates of militarism are trying to block the discussion of these problems at international forums. They deliberately obstructed the convening of the UN Conference on Interrelationships Between Disarmament and Development, and when it was held in July and August 1987, they came out to prevent the adoption of constructive decisions. The forces of militarism block in every way the discussion of these problems within other international organisations (in particular, by UNCTAD), referring to the need to avoid excessive politicisation of these organisations.

The enemies of disarmament insistently allege that the growth of military production has a favourable effect on the industrial potential of developing countries and are trying to lure them by the prospect of expanding the arms export and, on that basis, receiving additional hard currency revenues. But the reality in the developing countries testifies to quite the contrary. The growth of military pro-

duction increases, above all, their economic, scientific and technological dependence on the centres of capitalism and their military-industrial complexes, because all military industries are built with a broad foreign participation (in the form of capital, technologies, equipment, and deliveries of units and parts of the armament they manufacture). The stepped up manufacture of arms and other hardware, registered as part of the total industrial output, produces a false impression of economic progress. But in actual fact this process boils down to the growth of the influence of foreign military-industrial corporations and the local oligarchies connected with them.

Military factories are of no use for building the foundations of self-sustained and independent economic development, because they do not manufacture either equipment for the national economy, or consumer goods for the population. Showing a semblance of dynamic growth, the expansion of military production, in fact, slows down the growth of the entire economy. The bigger the share of military production in a country, the greater imbalance in the economy disordering the whole process of social production. This general law governning the functioning of any economy, operates most vividly in developing countries whose economy is overstrained.

Advocates of the arms race intimidate developing countries by difficulties involved in the restructuring of a military economy along civilian lines. No doubt, conversion, that is, the use of military resources for peaceful purposes, demands special measures. The experience shows that any state, whatever its social system and level of development, is capable of converting military industries into civilian ones. In the process it may become necessary for a state to take resolute measures to make up for the reduced military demand, to retrain workers, and so on. But the difficulties normally involved in conversion are incomparable with the immense loss caused to mankind, to the peoples of developing countries in the first place, by the continued arms race.

The idea of interrelationship between disarmament and development is winning increasing support in the develop-

ing countries, for this concept meets their vital interests and serves a major factor of building up the unity of the newly-free nations. The awareness of the fact that the war threat can be averted and peace be safeguarded only through joint efforts stimulates ever more the integrational processes going on in the developing world.

*Questions for Self-examination*

— What are the proportions of the arms race in the world, and what are its main causes?

— Who is to blame for drawing the developing countries into the arms race?

— What is the dynamics of arms spending in the developing world?

— Name the chief internal and external factors which influence the militarisation processes in developing countries.

— Why is militarism regarded as a brake on economic growth?

— What is the impact of arms import on the monetary-financial situation in developing countries and on their foreign debts?

— What economic effect can disarmament produce for Asian, African and Latin American countries?

— The solution of what social and political problems confronting developing countries can be brought about by the end to the arms race?

— What is interrelationship between disarmament and development?

*Topics for Discussion*

— The economic and social consequences of militarisation in the developing world.

— Disarmament and development are the main goal of our time.

CHAPTER 12

# Economic Integration: Ways of Development

Economic integration is one of the most important and complex developments in the world today. Objectively, it derives from the internationalisation of economic life, reflecting a vigorous process of the development of commercial and economic ties between peoples and states. The process is conditioned by a more profound international division of labour, larger scales of production and its gradual transformation into international production. At the same time, integration cannot be identified with this objective process. In the totality of the most diverse economic ties between countries, integration's distinctive feature is that it requires deliberate, purposeful actions on the part of all its participants and first of all of governments, to develop stable links between particular factories, industries, economies of the countries composing the particular integrational association.

Thus, inter-state economic integration may be defined as an objective, regulated process of the reciprocal rapprochement and mutual adaptation of the national economies of the countries involved in integrationl associations, resulting, in the final analysis, in higher social productivity performances, and increased gross national incomes of the countries maintaining integrational ties. Thus, the aim of integration is to raise to a fundamentally new level the economic cohesion of the member-states employing corresponding measures in the framework of the integrational association.

It stands to reason, that the actual content of economic integrational processes, their nature and driving forces,

are determined by the specific historical peculiarities of the integrating countries, by their positions in the world economy. In developed capitalist countries, integration primarily promotes the interests of big capital, which uses it to strengthen its economic might and influence, its positions in the world, preserving unequal international economic relations and impinging the rights and interests of the newly-free nations.

In developing countries processes of integration are on the whole of a progressive character. They meet the basic interests of these countries and are conducive to the growth of their productive forces and a lesser dependence on international capital. They also place international economic relations on a more just and mutually advantageous footing.

## 1. Prerequisites for Economic Cooperation and Integration of Developing Countries

In the colonial era, Asian, African and Latin American countries did not have any opportunity to establish mutual economic ties, for the metropolitan countries had practically full control over their foreign trade, preventing them from expanding their foreign economic relations. In Asia, for instance, Britain controlled more than 80 per cent of trade with India. Indonesia's trade was almost totally monopolised by Holland, while France was the sole trade monopolist in Indochina. Britain and France accounted for nine-tenths of African foreign trade. In Latin America, positions of dominance were first held by European colonial powers, and then, by the USA. The metropolitan countries imposed on the colonies a narrow specialisation in farm products and raw materials as their part in the international division of labour. It turned them thereby into 'banana', 'coffee', 'cotton', 'jute', 'tin' or 'rubber-producing' countries. This sealed the dependence of colonial countries on the markets of the big powers, predetermining their profound mutual aloofness from each other.

The collapse of the colonial system, the emergence of a large group of sovereign states and their efforts to eli-

minate economic backwardness and win economic independence, put on the order of the day new tasks of rapidly building up their own national economy, implementing industrialisation, improving farming and reconstructing other sectors. To accomplish all these tasks, considerable financial resources were first of all needed. However, most developing states were small countries with populations of less than 5,000,000 and low national incomes incapable of providing funds essential for national development. It was only by uniting their efforts that the formidable financial problems could be resolved.

Serious difficulties cropped up also in the course of developing industry. Home markets of most developing countries were too narrow to ensure effective demand for the mass-produced goods. This, in turn, led to the curtailment of production, the under-capacity operation of enterprises, higher production costs and lower profits. It is noteworthy that even in such new industrial countries as India, the ARE, Nigeria, Argentina, Brazil, and Mexico, industrial enterprises, as a rule, operated in the 1960's and 1970's at one-third to one-half of their capacity. As a result, formidable obstacles arose in the path of industrialisation, which could only be removed by uniting national markets, eliminating high custom duties and other limitations hindering mutual exchange of manufactures.

The need to resolve the problem of the availability of raw materials and fuels also leads developing countries to embark on the path of integration. Though Asian, African and Latin American countries have fairly large deposits of oil, ferrous and non-ferrous ores, hydropower resources, not one of them possesses the whole range of indispensable resources. Mineral deposits are very unevenly distributed in the developing world. Some countries possess an excess of non-ferrous metals, but are short of petroleum. Others have huge deposits of iron ore, but lack coals. Still others abound in oil, while non-ferrous metals are in short supply. Furthermore, due to economic backwardness and primarily the inadequacy of funds, some mineral deposits in developing countries are poorly developed or not at all.

Integration could also play a major role in upgrading the agriculture of the integrating countries. To do so, optimal opportunities to specialise in agricultural production should be found, making it possible to create, by joint efforts, highly efficient agro-industrial complexes, in complete accordance with natural, climatic, social and economic conditions of the localities. Of great significance here can be measures to regulate water resources, the creation of infrastructure (construction of roads, bridges, irrigation works, electrification, etc.), development of new lands, and higher per-acre yields.

Obviously, it was not internal factors alone that stimulated economic integration in the developing world. Its development was largely determined also by the external conditions, primarily by the integration processes taking place in Western Europe and the efforts of developed countries to strengthen and co-ordinate their foreign economic activities more vigorously confronting the developing countries with a sort of a Western united front. The European Economic Community (EEC) was formed in 1957 to resort shortly after to discriminatory trade measures against many developing countries. The West substantially intensified its cooperative activities via the Organisation of Economic Cooperation and Development. In addition, seven developed capitalist countries (the USA, Britain, France, Italy, Japan and Canada) began to hold regular annual summits. All this was accompanied by economic pressures on the developing world through the unfavourable pricing of exported and imported goods, financial pressures and, less favourable terms for the supply of technology.

Under these circumstances, efforts by Asian, African and Latin American countries to expand regional economic cooperation and establish close integrational ties constituted a kind of a counter-weight to the trend of shackling developing countries to the production system of the industrially developed centers of the world capitalist economy. These efforts also served as a means of strengthening their positions in world economic affairs and a major means to ward off Western pressures.

## 2. The Character of Economic Cooperation

Processes of integration in developing countries have a number of distinct characteristics. Whereas in the developed world such processes are the natural product of the development of the productive forces, in Asian, African and Latin American countries the situation is different. Here integrational trends arise not so much as the result of the level of development of their productive forces, as by the need to accelerate social and economic progress and overcome technological and economic backwardness.

Expanding their economic cooperation, the developing countries objectively seek to change the unequal international division of labour imposed on them in the conditions of colonial oppression and to assert new, equal and just rules of international economic cooperation. But there are many specific traits here, for the drive toward integration varies from country to country in the developing world. It embraces countries with different levels of socio-economic development, political orientations. Sharp controversies flare up on questions concerning economic cooperation and integration of developing countries, involving most diverse social groups representing the interests of opposing classes and social forces.

In terms of their social and political background and basic consequences, integration processes in the developing world are not homogeneous. Three trends can be readily singled out if we judge them by their socio-political orientation:

1. Integration having a progressive and democratic orientation, meeting the interests of broad social groups and conducive to strengthening economic independence and substantially limiting private capitalist accumulations and the enrichment of ruling classes.

2. Integration of a bourgeois-democratic character, oriented toward the interests of particular groups of national bourgeoisie, promoting the consolidation of their positions in the economies, placing certain limits on foreign monopoly and, by contrast, creating with the government's

active support, widest possible fields for national private enterprise.

3. Anti-democratic integration having a pro-imperialist orientation, which stimulates the formation of big capital, strengthens the positions of local financial and industrial groups, entering into blocs (into partnership) with foreign monopolies and hinders the solution of such social problems as unemployment, poverty and the disfranchised status of the mass of the people.

Integration meeting the basic interests of the newly-free nations is of the type that would not only stimulate higher economic growth rates and a progressive restructuring of the productive forces, but also open up real prospects for the resolution of social challenges and provide for higher living standards of the population.

It should be stressed, however, that attempts are sometimes made to present integration as a universal remedy to all the problems concerning national development in Asian, African and Latin American countries. It is quite apparent that this is not the case. Integration should be accompanied by internal social and economic changes promoting economic independence and higher living standards for the population (consolidation of the positions of the state in the key sectors of the economy, a clear-cut regulation of areas and terms of activity of foreign capital, effective control over its transactions in the country, measures to restrict the influence and positions of financial and oligarchic circles in the economy, agrarian and tax reforms, etc.). It is only after all these conditions have been complied with, that integration will bear fruit.

The process of integration requires an active participation in it of national states (government bodies), their consistent interaction, co-ordination of their national policies, economic plans and programmes. The need for such a participation is explained primarily by the fact that it is only the state which is in a position to work out and implement corresponding programmes of economic and social development that can impart to economic growth and the development of the productive forces a purposeful and balanced character, one that would meet society's

needs and national interests. And this cannot be done by the private, capitalist sector, for its actions are based on selfish and narrow interests, which are more often than not a far cry from social needs.

The need for the state to participate in developing integration is dictated by the fact that it alone is in a position to counteract international monopoly capital, which is intent on actively influencing the processes of integration. Since the national private sector is relatively weak and experiences pressures from foreign monopoly capital, through transnational corporations, the state only can set limits to the expansionist encroachments of the latter, employing respective legislative and practical measures, and in this way ensure national sovereignty over its natural resources, defend the national sector of the economy (small-scale and medium-scale enterprises in particular) against the destructive external effects, and institute national control over major industries which aid development.

By and large, the state bodies of developing countries face the task of defining the general strategy of economic co-operation and integration, determining its long-range goals and guidelines, forms and methods. Just as important is the task of setting up a suitable and efficient institutional structure—management bodies and mechanisms by means of which integration projects can be implemented.

It should be stressed that the choice of methods and mechanisms of integration has become the subject of heated discussions. The predominant pattern of integration in the developing world are trade and economic groupings in the form of 'zones of free trade' or 'common markets' which imitate the market mechanisms of integration, typical of the economic groupings of developed countries (EEC, for example). In other words, what is imitated is interstate multilateral agreements regulating exchange, rather than production, although the latter is especially important for the solution of economic problems of the poor countries. At the same time, efforts of the national democratic forces focus on eliminating the dominance of foreign capital, especially of TNCs in the production sphere, on imparting a democratic and truly equitable character

to the economic cooperation and integration of the poor countries.

The working out of a new and more just approach to mutual inter-state economic relations in the spirit of the principles laid down in the program of the New International Economic Order would provide a solid basis for the further economic rapprochment of developing countries, a wide use of progressive mechanisms of inter-state regulation and planning, and introducing these mechanisms into the production sphere as well. However, opposition from fairly powerful forces linked with foreign monopolies makes the introduction of these principles rather problematic. The controversies around the principles, patterns and methods of integration reflect the polarisation of social forces in the developing world and are part of the general struggle over the further social development of Asian, African and Latin American countries.

## 3. The Main Trends of Integration

The past two decades have witnessed the expansion of economic cooperation and the establishment of various forms of integration ties among developing countries. This was reflected primarily in an appreciable growth of their mutual trade (See Table 1). Whereas in the 1950's and 1960's mutual trade of developing countries grew at rates lower than those of their trade with developed capitalist countries, a reverse trend began to operate in the 1970's.

In the period from 1970 to 1981, the mutual trade of developing countries grew 14-fold, while their general foreign trade increased by approximately 9 times. As a result, the share of mutual trade in the general foreign trade of the developing world rose from 19.5 per cent in 1970 to 24.5 per cent in 1979 and to 30 per cent in 1981. During that period, the rates of growth of trade between developing countries were higher than those of the world trade as a whole. As a result, the share of the mutual trade of developing countries in the world trade increased from 3.5 per cent to 7.5 per cent, i.e. more than doubled.[1]

It would, of course, be wrong to attribute these changes

*Table 1*

**Foreign Trade Turnover of Developing Countries and Their Mutual Trade**
(in bln. of US dollars, current prices)[2]

| | 1970 | 1975 | 1980 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|
| General Exports | 56.0 | 209.5 | 560.3 | 485.4 | 453.1 | 469.9 | 442.8 |
| Exports to Developing Countries | 10.9 | 49.1 | 139.3 | 144.7 | 133.3 | 131.9 | 129.3 |
| General Imports | 55.8 | 188.0 | 466.3 | 476.5 | 440.2 | 437.7 | 419.1 |
| Imports to Developing Countries | 10.9 | 49.1 | 139.3 | 144.7 | 133.3 | 131.9 | 129.3 |
| General Trade Turnover | 111.8 | 397.5 | 1,026.6 | 961.9 | 893.3 | 907.6 | 861.9 |
| Mutual Trade Turnover | 21.8 | 99.2 | 278.6 | 289.4 | 266.6 | 263.8 | 258.6 |

to integration processes taking place in the developing world. High rates of growth of mutual trade have been largely accounted for by the inflationary growth of prices (in the 1970's prices rose by approximately 150 per cent). Then changes have also been caused by the growing activities of international monopolies in developing countries, which carry out their transactions by means of wide international cooperation. Thus TNCs conduct trade operations between their firms in various countries, leaving it to the developing countries and their groupings to merely register at their customs corresponding export and import deals.

Nevertheless, despite all these factors, obvious is the trend towards expanding cooperation among developing countries. And it is not only that mutual trade has grown. The crux of the changes consists in that developing countries have passed from sporadic and mostly bilateral to purposeful multilateral actions, directed toward 'collective self-reliance'.

The basic principles underlying that course were formulated by developing countries at conferences in Mexico (1976), Arusha (1977), Caracas (1981), Buenos Aires (1983) and in Havana (1987). The main points of the concept of 'collective self-reliance' were defined as follows: promotion of economic integration programmes at all levels

(subregional, regional and inter-regional), and introduction of new forms of cooperation. Also expressed was the idea of encouraging the establishment of associations of producers and exporters of commodities and foodstuffs, foundation of multinational raw-materials-producing companies. The questions of broader contacts between government organisations, joint efforts to strengthen the scientific and technological potential, broader cooperation in industry, finances and farming, co-ordination of bargaining positions in the world arena were also considered. At the 4th UNCTAD Session (Manila, 1976) it was decided to set up in the framework of that organisation a permanent Committee on Economic Co-operation of Developing Countries, creating thereby an international forum to discuss regularly urgent issues and adopt decisions aimed at ensuring economic ties and developing integration in Asia, Africa, and Latin America.

According to the UN, in the mid-1980's there were in the developing world 23 general economic organisations, 44 regional trade and economic groupings, 30 associations of raw-materials producers, two monetary unions, eight clearing and five credit agreements, in which 117 developing countries took part.

At present, the developing countries prepare measures designed to broaden their mutual cooperation. Central to it is the Global System of Trade Preferences (GSTP) aimed at providing favourable and stable conditions for the expansion of mutual trade amongst the developing countries. It is proposed that the GSTP should guarantee the obligations of developing countries to grant mutual preferences, to introduce no new restrictions on imports from partner-countries and to apply especially easy custom terms for the least developed countries.

Much attention is given to widening co-operation between government trade organisations (GTO). Steps have been taken to establish closer ties between GTOs at the regional level.

Industrial cooperation has also gained momentum. Agreement has been reached within the framework of the Association of Southeast Asian Nations (ASEAN) to build

some industrial capacities that would cater to the needs of all the member-countries (two fertiliser factories in Indonesia and Malaysia, a soda ash works in Thailand and a copper smelting plant in the Philippines). Organisation for the Development of the Senegal River plans to build some 180 enterprises for processing farm produce (rice- and cotton-cleaners, tanneries, etc.). The Andean Group adopted programmes for the expansion of motor vehicle production, iron and steel industries, metalworking and petrochemical industries.

Strenuous efforts are being made to intensify and expand ties in the sphere of finances and credits. Quite a few groups of countries established regional and subregional banks, funds and financial corporations. Developing countries attach great significance to the setting up of a South Bank with foundation capital of $500 million. The bank's aim will be to finance mutual economic ties between these countries.

It would be, of course, wrong to overrate the successes of integration in the developing world. It has not yet gone beyond its initial stage. The degree of intensity of mutual ties between developing countries does not give the right to present their integration as a process of merging of their national economies to form a single economy. Not one of the existing regional or subregional organisations can now even contemplate setting such a task. At the present stage, integration of developing countries takes the form of associations in which prerequisites are being just prepared for their steady rapprochement. The broader their mutual ties in the particular fields (trade, finances, production, energy generation, farming, transport, communications, etc.) the more effective the accomplishment of this task.

At the same time, one cannot but note that the process of economic cooperation in Asian, African and Latin American countries is not plain sailing. It has its own ups and downs. Some trade and economic groups operate inefficiently, others do not function at all. Practically inactive is the Organisation of Regional Economic Co-operation with which Turkey, Iran and Pakistan are affiliated. The largest organisation in Latin America—Integration Asso-

ciation (LAIA) encounters serious difficulties. The Central American Common Market (CACM) has practically ceased its activities. Since its very inception in 1967, the East African Economic Community was torn by many internal contradictions. Differences in political systems and divergent social and economic policies of the member countries brought about the disintegration of that organisation in 1977. It was only in 1985 that a conference of foreign ministers of these countries raised the issue of renewing regional cooperation. In the Arab common market, which was founded as far back as 1964, many decisions that had been agreed upon and declared urgent, remain on paper.

The economic crisis of the early 1980's seriously affected economic cooperation and integration of developing countries. It appreciably curtailed their mutual trade and hindered the operation of their many trade and economic organisations. As the data in Table 1 show, mutual trade turnover of developing countries declined in 1981-83 by 10 per cent and in subsequent years lingered at that low level. In some regions that drop was even more drastic. In Latin America, inter-regional trade decreased by about 30 per cent, while its share in Latin America's general trade dropped from 16.6 to 11.7 in 1981-84.

Pressurised by intensified economic difficulties and greater demands of world economic centres the developing countries has to revise their agreed regional economic programme aimed at defending their major national interests. Members of the Andean Group (Peru, Venezuela, Columbia, Bolivia and Ecuador) began revising their policies concerning the activity of foreign capital in these countries. They agreed to grant foreign investors more favourable terms of investment and major concessions in terms of higher levels of transferable profits, extending the spheres of activity of foreign capital and opening up for it local credit markets.

On the other hand, a more complicated economic situation compels developing countries to seek new ways of invigorating their mutual cooperation and strengthening their positions in the face of growing pressures from international capital. In this connection, a trend is gaining ground

to co-ordinate foreign economic policies, broaden mutual ties, and achieve united action on the key issues of international economic relations. This trend was evident in proceedings of many international forums and summit conferences (primarily at the Conference of the Non-Aligned States in Harare in 1986), as well as in formulating general demands of developing countries to place international economic relations on a more sound footing. These resolute demands were put forth by developing countries at the UNCTAD Seventh Session held in Geneva in July 1987.

Developing countries consider broader regional co-operation as a major factor for overcoming the existing difficulties. It is exactly from this angle that the steps should be viewed to liberalise and stimulate trade in raw-materials and foodstuffs, as well as in manufactured and semi-finished goods taken recently by the ASEAN countries (Indonesia, Thailand, Philippines, Malaysia, Singapore and Brunei). Latin American countries also express great interest in such ventures. Estimates reveal that these countries could meet most of their import needs by developing their inter-regional cooperation, ensuring substantial savings of hard currency. This is a very realistic outlook. At present, Latin Americans buy 80 per cent of their total imported grain from the USA and Canada, and from 80 to 90 per cent of imported dairy products, alcoholic beverages, natural rubber, tobacco, fertilisers and vegetable oil is imported from sources outside their zone. Their major import requirements in petroleum and products (55 per cent) are also met by sources beyond the region's borders. According to available data, trade transactions between the Latin American countries exporting oil and those supplying farm produce in the region could have been no less than $4.8 billion in hard currency.

## 4. Problems and Contradictions in Economic Co-operation and Integration of Developing Countries

Experiences of many countries reveal that there are no straight roads leading to integration. Difficulties, frictions

and often even serious contradictions between countries participating in integration associations can largely be accounted for by great diversity and substantial differences in their policies, ideologies and economies.

Of no little influence on integration are political factors such as differences in political systems and interrelations, as well as approaches to the understanding of the goals and tasks of mutual cooperation.

Complication of political relations between the countries participants in these associations adversely affects their integration. Thus, the worsening of inter-state relations between the Maghreb countries when differences over the Western Sahara arose in the mid-1970's, resulted in the interruption of the functioning of the Maghreb Permanent Consultative Committee. The suspension of Egypt's membership in the Arab Common Market and the Council of Arab Economic Unity in 1979, after the signature of the Camp David Agreement, also complicated the functioning of these organisations.

At the same time, experience reveals that the existing political distinctions and differences are not an insurmountable barrier. Common interests in the effort to restructure international economic relations on the basis of equality and justice, the urgent need to mobilise resources for development through joint efforts, determine the viability of integration and encourage differing political regimes to enter into economic cooperation. Readiness to seek mutually acceptable forms and principles of such co-operation, to take into account the specific features of each country and reach compromises to overcome frictions and differences, constantly improving mechanisms of economic co-operation—such are the ways of resolving problems of political disagreements.

Equally significant are economic factors. Underdeveloped productive forces and inadequately developed sectoral economic structures of many Asian, African and Latin American countries are causes for their economies being of the same type. They form a pattern of economic structures that is not conducive to complementing each other, nor does it ensure their closer co-operation.

On the other hand, integration of countries with different levels of development involves different approaches to methods and forms of this process. The economically weaker countries seek to safeguard their markets against the expansionist ambitions of a more powerful and competitively stronger capital of neighbouring larger countries. In concluding agreements on economic cooperation and integration they seek to have certain privileges reserved that would make it impossible to be 'overwhelmed' by their stronger partners in integrational associations and give them certain priorities to raise their economic growth rates. Such rivalries manifest themselves, incidentally, in the interrelations of the ASEAN countries. Fearing that lower custom duties will harm local industries, Indonesia and Malaysia oppose the proposal of Singapore to set up a common market for the ASEAN countries. Trade in this region is being liberalised through granting preferences to particular goods, the total number of which is planned to reach more than 20,000 items.

In this connection, the issue of sharing in possible profits and losses by the integrationalists becomes especially acute. Actually, this is one of the most urgent issues in any integration union. The way in which this issue is resolved would determine the success, stability and viability of integration. For the given form of integration to be acceptable and suitable to weaker integrating countries and their stronger partners, both should be equally sure that each stands to benefit concretely and equitably. Unfortunately, actually, this is hardly always the case.

Thus, in 1970's in Latin America's largest economic group of countries—the Latin American Free Trade Association (LAFTA)—the basic gains from integration accrued to the 'Big Three'—Argentina, Brazil and Mexico—which possess more powerful industrial potentials and relatively more diversified economic structures. As to middle-size and especially small countries, they proved unable to receive the benefits justly due to them from integration. That retarded the liberalisation of mutual trade (whereas in 1960-67 the Association members were granted more than 9,000 tariff preferences, the figure for 1968-78 was barely 310). This

induced small and middle-size countries to start forming subregional groups (the Andean and La Plata groups, in particular) and finally plunged the Association into severe crisis. In 1980, it was transformed into the Latin American Integration Association (LAIA), in which all members were subdivided into three groups—the more developed, the middle-level and the least developed countries, with a scheme of preferences provided for the last two categories.

Another serious factor predetermining acute problems and controversies in integration is the activity of foreign capital, the TNCs in particular. In the first post-war years, developed capitalist countries and their monopolies emerged as open opponents of the establishment of close economic co-operation among the developing countries. In the subsequent period, when the concept of economic integration gained wide currency in the developing world, the capitalist centers changed their tactics. They no longer openly opposed the development of integration in Asia, Africa and Latin America and supported projects of establishing regional economic associations. The emphasis in the fight against regional economic integration shifted to the sphere of measures designed to emasculate the real content of the process. TNCs were assigned the main role to play in accomplishing that task.

Two clear-cut policies can be readily traced to their approach to integration. One was to infiltrate integration to establish control, using integration for their vested interests. The other was designed to oppose strongly those trends of development of regional integration, which TNCs considered to be unsuitable and contrary to their basic aims.

As to the first course of action, international capital displayed its interest in actively participating in the work of the economic groups of developing nations, trying to take advantage of benefits accruing from their formation. It gained from the creation of 'common markets' and 'zones of free trade' where the branches of foreign companies using protection barriers pushed their exports and suppressed their weaker rivals, the national industries particularly.

One has to acknowledge that foreign monopolies in many cases did manage to use regional economic integration for their selfish aims. This fact has been noted by many reserchers, who stress that branches of TNCs with more powerful production and financial potentials, not the national companies, mainly benefited from the liberalisation of trade, improved industrial cooperation and other integrational procedures in the new economic groups of developing countries.

On the other hand, whenever international capital saw integration threatning its interests, it firmly implemented the second policy, that is, it opposed integrational measures using a variety of means. This policy was especially evident when TNCs came up against the efforts of developing countries to agree on a common position as regards foreign interference—everything was done to nip such attempts in the bud. Thus, thanks to the opposition from TNCs, the Maghreb countries had long been unable to work out a common course in relation to foreign capital and to sign an agreement on regional cooperation. Though in 1983 the issue of instituting a customs union was again raised for discussion by these countries, the former disagreements on the foreign capital regulations prevented any tangible progress. Characteristically, international capital has recently succeeded in revising 'the general system of regulations for foreign capital' that was operative in the Andean Group.

Commercial and economic policies of developed capitalist countries are also responsible for quite a few obstructions to integration. Holding strong positions in trade and other spheres of foreign economic links of developing nations, they resort to all methods to keep them tightly tied to world economic centers. Of especial significance here are large-scale actions carried out by the economic groups of developed countries to involve developing nations into the orbit of their political and economic influence. This is clearly evidenced by the policies pursued by the European Economic Community.

## 5. European Economic Community and Developing Countries

The course pursued by the EEC to strengthen and extend its positions in the developing world, primarily in the geographically near-by regions—Africa, the Mediterranean and the Persian Gulf—is dictated by a number of economic and political factors. First, it derives from the EEC's great dependence on imports (chiefly from developing countries) of fuels, raw materials and farm produce. These imports account for three-fourths of the consumption of these commodities in the EEC countries. Secondly, these countries are very interested in marketing their goods in developing countries (on their markets some 40 per cent of the EEC exports earmarked outside the Community's boundaries are realised). They are equally interested in securing spheres for application of capital (the sum total of the EEC investment in developing countries is estimated at $46.2 billion which is roughly one-third of the direct foreign investment of the EEC. Finally, there is the existing system of 'special' relations in the political and military fields between former metropolitan countries and their respective former colonies.

Basic policies of the Common Market in relation to the latter were formulated in the Convention on Association, later incorporated into the Treaty of Rome which led to the establishment of the EEC (1957). According to that Convention, 14 French, three Belgian and one Italian colony became the associated members of the West European integration group. New agreements on association were additionally signed with the newly-free countries—the first Yaoundé (1963-69) and the second Yaoundé (1971-75) Conventions.

The entry of Great Britain, Denmark and Ireland into the Common Market necessitated the establishment of similar relations with the former British colonies and a number of other developing countries. These changes in membership were registered in the first Lomé Convention (1976-80) concluded with 46 developing countries, in the second Lomé Convention (1980-85) which was signed by

59 countries of Africa, the Carribbean and the Pacific (the ACP countries), and in the third Lomé Convention (1985-89), parties to which were 65 developing countries. Besides, the EEC concluded special long-term agreements with some Mediterranean and Persian Gulf countries, India, Argentina, Brazil, Mexico and a number of countries in Southeast Asia and Latin America.

Formally, these documents served to declare the readiness of the EEC to contribute to the development of the Third World countries, especially to the poorest, such as the ACP countries, promoting their industrialisation and providing for the stable development of their foreign trade and revenues from exports.

And indeed, the EEC countries had to make partial concessions to developing countries in trade and in rendering financial aid. But the actual results of conventions and agreements show that they have not changed the unequal position of developing countries in their relations with Western Europe.

This can be demonstrated in the ACP countries. The ACP countries' unilateral economic dependence on the Common Market countries has far from slackened, it has rather increased. The Community continues to account for from 40 to 70 per cent of their foreign trade, while the share of the ACP countries in trade transactions with the EEC countries does not exceed 3.5-6 per cent. In the past decade the imbalance in mutual trade has even grown, with the Common Market's share in the imports of the ACP countries increasing from 42 to 48 per cent. The export of this group of developing countries remains essentially of a mono-commodity nature. According to available data, most of them receive one-third of all their revenues from exports by selling only one commodity, while 9 other commodities account for 90 per cent of the ACP total exports.

The preferences and benefits granted to the ACP countries also look very modest. In the sphere of customs and tariffs, the European partners agreed to give these countries non-reciprocal preferences. Under the third Lomé Convention, the right to duty-free imports to the EEC countries

was extended to 99.5 per cent for agricultural exports and 100 per cent for exported manufactured goods. However, the actual value of these benefits is not significant, for the main form in which protectionism is practised hindering the marketing of farm produce in the EEC countries, is the non-tariff restrictions. Indirect taxes, in particular, amount to 250 per cent of the import prices of some tropical goods. Moreover, according to the general system of preferences under GATT, 80 per cent of the ACP exports would in any case have free access to the markets of the EEC. Lastly, liberalisation of imports of manufactured goods from the ACP countries is essentially symbolic, for the share of such goods in their exports is actually next to nothing, amounting to a mere two per cent.

The developing countries insisted that a financial system should be created that would provide compensation for their losses due to frequent fluctuations of prices of the commodities and goods they export. The EEC agreed to create a mechanism named Stabex to stabilise the export incomes of the ACP countries. The mechanism covers 48 kinds of farm produce (mainly tropical goods). The chief function of Stabex is to level out the export incomes of the ACP countries on the basis of the average for the preceding five years. The EEC-sponsored fund extends to the ACP countries loans or subsidies when world prices of these goods fall lower than the guaranteed minimum which is established as an average price for the preceding five years. If their export revenues grow as the result of higher world prices or after the restoration of the former volume of output following overcoming the effects of natural calamities, the ACP countries are obliged to repay their earlier compensation. If the drop in export revenues results from its own trade policy, the ACP country concerned loses the right to use the payments from the fund. The last proposition offers the EEC ample possibilities to interfere with the foreign-trade policies of the ACP countries.

By and large, the efficacy of the Stabex scheme is minimal. Between 1975 and 1983, 205 loans to the tune of 761 million ECU were granted through it. Another 90 requests were declined. These payments are equivalent to

one per cent of the value of the EEC imports from the ACP countries and they cover about 40 per cent of the sum the latter had been underpayed for their exports to the Community.

The EEC-sponsored financial aid to the ACP countries also had serious limitations. It was being rendered through institutions specially set up for that purpose—the European Investment Bank (EIB) and the European Development Fund (EDF), which granted non-repayable subsidies and soft loans for the term of 40 years (a ten-year soft period) with an annual interest of one per cent. The EIB also extends commercial credits with payment terms of 10-15 years and 5-8 per cent annual interest. The total sum of funds paid in aid to the ACP countries amounted in 1980-84 to 5.6 billion ECU (initially 10 billions were requested). In pursuance of the third Lomé Convention, 8.5 billion ECU was allocated. Viewed against the requirements of the ACP countries, these funds are clearly inadequate. Thus, in line with the first Lomé Convention the per capita aid to these countries amounted to mere 2.5 ECU, to be nominally increased by the second Lomé Convention to 3.3 ECU, but on its real value, with price rises taken account of, it dropped by 20 per cent. And although in accordance with the third Lomé Convention the aid was increased to equal 4.5 ECU, due to the devaluation of the ECU in relation to the dollar, its real value was actually much lower.

It is quite understandable, therefore, that the way in which the ACP countries are associated with the EEC does not satisfy them. They want to have truly equal relations. The Belgian economist Colette Cova has the following to say on this score: 'The second Lomé Convention has not brought the results we expected it would. Not one of the ACP countries has acceded to the status of new industrial countries, the contrary is rather the case. Despite the preferences granted, their exports to the EEC have not grown, agricultural output has shrunk, extractive industries degraded, hopes of industrialisation dissipated, and indebtedness . . . more than trebled.'[3]

From the above we can see the kind of relations being

formed between the EEC and the developing countries. These relations are designed to preserve their economic backwardness, maintaining them as suppliers of raw materials and food, isolating them from each other and even counterposing some developing countries to others. They are designed to obstruct the objectively operating trend in the developing world to conduct a common struggle to restructure international economic relations on the principles of equality. Simultaneously, making insignificant economic concessions, the EEC ensures for itself an enormous sphere of influence over 450 million people. In this way, the EEC countries provide for themselves the sources of essential raw materials, capacious markets for their goods and profitable areas for the investment of capital. Some researchers define such a system of relations as neocolonialism. It seriously impedes the advance of the newly-free nations to economic independence.

Asian, African and Latin American countries counterpose to that neo-colonialist system a programme of a new international economic order, which calls for the firm adherence of all nations to the principles of genuine equality.

*Questions for Self-examination*

—What do we mean by the process of economic integration?

—What are the basic differences between integration in developed capitalist and developing countries?

—What are the basic prerequisites of economic cooperation and integration of developing countries?

—What are the basic types of integration in the developing world?

—What determines the great role played by the state in integration in developing countries?

—What are the main trends in development of economic cooperation of Asian, African and Latin American countries?

—What are the main political and economic factors giving rise to problems and contradictions in the integra-

tion process now under way in developing countries? What is the essence of the basic contradictions?

—What is the attitude of developed capitalist countries to the integration of developing countries?

—What does the association status with economic groups of developed capitalist countries have in store for developing countries?

—Can economic integration solve all key social and economic problems facing the developing countries?

*Topics for Discussion*

—Economic integration and the possibilities to accelerate economic growth in developing countries.

—TNCs and integration of developing countries.

—The EEC and developing countries: avenues of economic cooperation.

CHAPTER 13

# A New International Economic Order

In the mid-1970's a movement to establish a new international economic order (NIEO) appeared on the international scene. The idea of restructuring world economic relations on the principles of equality and justice had been much discussed at various international forums. An especially vigorous role in this respect was played by the Group of 77 developing countries, formed at the first session of UNCTAD in 1964. It was attended by 77 developing countries which acted in unison on all the issues discussed. Subsequently, the Group of 77 became a permanently functioning body. Today, its membership comprises 127 states.

In April 1974, at the Sixth Special Session of the UN General Assembly convened to discuss the problems of socio-economic development and the re-adjustment of international economic relations, the Group of 77 put forward on behalf of developing states two fundamental documents —the Declaration on the Establishment of a New International Economic Order and the Programme of Action to Establish a New International Economic Order. Both documents were endorsed and adopted. Supporting the initiative of developing states, the 29th Session of the UN General Assembly adopted in 1974 a Charter of Economic Rights and Duties of States, which summed up the main points of the above two documents. In 1975, at the Seventh Special Session of the UN General Assembly, the programme for the establishment of a NIEO was made more farreaching and more precise. What, then, are the main points of that programme? What impels the developing

countries to fight for its implementation and what are the actual results so far?

## 1. The Main Driving Forces

The emergence of the developing countries' movement for a NIEO is not a fortuitous event in their history. Nor is it a deliberate diplomatic move, but an objectively necessary phenomenon.

It reflected the sharp contradiction between the political structure of the world in the 1970's when the numerically predominant developing countries with a population exceeding half of all humanity won political independence and were working to eliminate the vestiges of colonialism, and the system of international economic relations which subordinated these countries and made them a dependent, exploited and unequal periphery of the industrial centres of the capitalist world?

The collapse of the colonial system in the 1950's and 1960's made it possible for the newly-free countries to do in a short time much more for economic development than in centuries of colonial oppression. In most of them, industrial development proceeded at a much faster pace, single national markets were formed and the reproduction process assumed a steadily extended character. Whereas in 1913-1950 the annual increment in GNP in Asian, African and Latin American countries averaged 2.1 per cent. in the 1960's it amounted to 5.6 per cent and to about 6 per cent in the early 1970's. A trend to strengthen the state sector began to appear in many countries and a fairly broad nationalisation of foreign property was carried out. In 1960-1976, 1,369 cases were registered of takeovers by 71 host countries of foreign enterprises in the extractive industry, banking, plantation farming and in some sectors of infrastructure and the manufacturing industry.[1]

Of course, it was internal factors providing for larger accumulations, mobilisation of material and manpower resources and greater capacity of home markets that were responsible for faster economic growth rates of developing countries. However, the impact of external factors grew

apace, connected as they were with the internationalisation of their economic life and their increasingly deeper involvement in the single process of world capitalist reproduction. Greater dependence on the capitalist world market, expansion of monetary, financial and credit ties and TNCs activities jeopardized major economic interests of developing countries. Taking advantage of the system of unequal foreign-economic ties, international capital increasingly deprived the developing countries of the actual fruits of economic progress.

All this confronted the developing countries with the urgent task of radically changing international economic relations, for their inequitable character blocked further advance on the path of economic and social development and strengthening their economic independence. It was the efforts of developing countries to make foreign-economic ties a true instrument of national development, to curb exploitation on the part of capitalist centres and assert the principles of justice in international relations that constituted the main driving force in their struggle for a New International Economic Order.

At the same time, an analysis of the driving forces in this struggle reveals that they are in no small measure determined by the internal contradictions in the developing world, particularly social contradictions. Economic progress of the newly-free countries is not accompanied in many cases by appreciable improvements in the living standards of masses of the poor, with social differences becoming strikingly contrastive. In Latin America in the early 1980's, ten per cent of the richest families concentrated in their hands 44 per cent of the national income, while 40 per cent of poor families accounted for merely eight per cent. Commenting on these data, the ECLA experts noted: 'The spread of poverty maybe judged from the fact that 40 per cent of the families in the region do not have incomes sufficient to meet their natural everyday requirements. This means that 100 million persons enjoy this situation.'[2]

As was noted earlier, unemployment in the developing world is soaring, public education, health service and soc-

ial security make extremely slow headway. Besides, to the former 'traditional' social maladies are added new, difficult problems linked to the rapid growth of the population, the need for prompt measures against environment abuse and to provide proper amenities for the fastly growing towns and cities. This cannot but intensify social tensions in the developing countries.

Aware of the need to ease sharp social conflicts and mitigate, if only partially, arising economic and political antagonisms, the governments of developing countries resorted in post-war years to a variety of measures. They carried out social and economic reforms of a limited character (the agrarian reform, in particular), employed the various forms of control over the activities of foreign capital, created a public sector through nationalising of foreign property and enforcing new economic strategies to expand economic growth.

Unfortunately, many such strategies often only bred illusions among the population that the key social problems would be solved. They failed actually to cope with these problems. Among such large-scale actions taken in many developing countries in the post-war period was the policy of developing import-replacing industries, programmes for the expansion of regional economic integration, the switch-over in the late 1960's and early 1970's to the plans to develop export-oriented industries. It is a fact that as a result of these measures a number of countries succeeded in somewhat mitigating the sharpest contradictions, securing faster economic progress and containing the surge of popular masses' unrest. This strategy also yielded effect in economic sphere. It helped to raise the economic growth rates, introduce some structural changes and modernise certain agricultural practices, etc. But actually it was not backed up by any real steps to improve the living standards of the majority of the population and thus proved incapable of reducing social tensions.

Under the circumstances the ruling circles in many developing countries orient their economic and political strategy towards intensifying efforts to restructure international economic relations. In their view, this struggle to im-

plement the NIEO programme should impel the imperialist powers to make certain concessions in favour of developing countries, strengthen the latter's position in the world, broaden the possibilities of the ruling classes for social and political manoeuvring and mitigating, to some extent, internal contradictions and controversies. At the same time, the fight for the NIEO programme is designed to play up its anti-imperialist and nationalist aspects in order to distract the broad masses of people in developing countries from the revolutionary alternative of radically restructuring society's life, without going farther than partial reforms of the system of foreign-economic ties and preserving intact the existing social system.

It would, of course, be wrong to consider the movement for a new international economic order as a manoeuvre on the part of the ruling circles in developing countries. It, doubtlessly, has arisen as the result of a new situation in the world today and reflects profound social and economic processes in Asia, Africa and Latin America, closely linked with the general upsurge of the national-liberation movement.

What is fundamental is the apparent shifts in the alignment of forces amongst the ruling top leaders in many countries of the developing world. The traditional allies of the West—the land-owning elite and trade and usurious bourgeoisie—surrender their positions to financiers and industrialists, as well as to influential groups of bureaucrats closely linked with the growing state sector. In the framework of a tripartite alliance emerging in many developing countries (transnational corporations—financial, industrial and landed oligarchy—bureaucratic capital representing the national state), we can observe not only efforts to preserve the mutually advantageous class alliance, but also sharp controversies brought about by frequent divergencies of economic and political interests.

Under these circumstances, the bureaucratic bourgeoisie and big national capital in developing countries use the struggle for a NIEO as an effective means to strengthen their positions in the tripartite alliance and tip the scales even more in their favour. At the same time, the ruling

classes' inclination to maintain their alliance with international capital and readiness to compromise, make their approach to the restructuring of international economic relations substantially inconsistent and contradictory, detracting from its effectiveness and seriously undermining the possibilities for carrying out radical reforms.

## 2. The Essence of the NIEO Programme

The NIEO Programme is a complex of demands linked with the assertion of new principles of international economic relations and the realisation of specific steps for their implementation. In particular, the Declaration on the NIEO proclaims the following principles:

—the sovereign equality of states, self-determination of all peoples, impermissibility of forceful seizure of territory, territorial integrity and non-interference in the internal affairs of other countries;

— equal participation of all states in deciding world economic problems in the interests of all countries;

— the right of each country to choose a social and economic system which it considers to be most suitable for its development (a country exercising this right must not be subject to any discrimination);

—inalienable sovereignty of each state over its natural resources and its entire economic activity with the recognition of the right of all states, territories and peoples under foreign occupation, colonial domination or the apartheid to recover their natural and other resources or have complete compensation for the exploitation, depletion and damage caused to them.

The Charter of Economic Rights and Duties of States sets forth the following progressive principles:

—peaceful co-existence of states, the duty of all countries to contribute to the achievement of general and complete disarmament under effective international control;

—the link between disarmament and development;

—the conduct of inernational trade on the basis of mutually granting most-favoured nation treatment, impermis-

sibility of discrimination in trade and in other kinds of economic cooperation on political, economic and social grounds.

The NIEO programme envisages, in particular, the following specific measures:

— lessening fluctuations of prices of commodities and narrowing gaps between these prices and the prices of manufactured goods;

—promotion of industrialisation and creation of international conditions to encourage industrial exports of developing countries;

—adoption of a complex of measures to bridge the technological gap between developed and developing countries;

—increasing the inflow of real resources from developed to developing countries;

—normalisation of the international monetary system;

—reglamentation of, and control over, the activities of TNCs.

The fundamental significance of the NIEO programme consists in that it is primarily designed to radically change the position of the newly-free countries in international economic relations, raise their true role in world trade and in monetary and financial system. The programme envisages a steady re-distribution in favour of the developing countries of the wealth amassed and the newly-created incomes.

Another circumstance is equally important: many NIEO propositions recognise the fact that world economy and international economic relations should not in the future just develop spontaneously, as a result of a free play of the market forces, that the trends of development cannot provide for a rational allocation of resources on the world economic scale, that world economic ties need to be regulated and directed primarily in the interests of those countries whom the market forces deprive of the benefits and advantages of the international division of labour.

By and large, the movement for a NIEO is developing within the framework of the general struggle for a progressive restructuring of the world. At the same time, it is

a major means to promote the interests of the newly-free countries. It would be wrong, however, not to see certain internal contradictions of the NIEO programme and the complex problems thereof. One problem consists in that the objective economic laws inevitably give advantages to more developed partners at the expense of less developed. By setting up a system of specific institutoinal measures, it is possible to limit to a certain extent the exploitation of the latter by international monopolies. However, the very sysem of exploitation remains intact.

The NIEO deals exclusively with foreign-economic relations and does not provide for the need to implement internal progressive social and economic reforms in the countries concerned. This is another limitation of the programme, for foreign-economic ties are closely connected with internal economic and social conditions. The latter largely determine the possibilities of the countries to strengthen their positions in the world market and in other fields of international economic relations. Such opportunities are the greatest in those countries where the public sector is more developed and where governments pursue a consistent policy of upholding national interests, regulate the activities of TNCs and the local private sector. By contrast, they are considerably less in countries whose rulers capitulate to foreign capital and do nothing to curb the selfish efforts of the local top oligarchic stratum.

Finally, one cannot but take into account the fact that the NIEO programme has been advanced on behalf of all developing countries, among which are states with different political systems and social and economic orientations. This, on the one hand, predetermines its insufficiently consistent nature and radicalism and explains the different aims and expectations of individual countries. Correspondingly, realisation of particular principles envisaged by the programme can provide widely varying degree of advantage to various countries. Thus, while poor countries strike to overcome their underdevelopment, the rulers of more developed countries or of countries possessing vast natural resources (including large oil deposits) such as Saudi Arabia and Kuwait, Brazil, Mexico, Singapore seek to join the

'club of the rich', i.e., to avail themselves of the opportunity to share on a par with powerful countries in the profits derived from the unjust world economic order.

Developing countries with a socialist orientation set themselves different aims: Laos, Angola, Ethiopia and other countries consider that the realisation of the NIEO principles would pave the way to better external conditions for establishing new democratic society.

## 3. Some Results of the NIEO Programme

Developing states strive to implement the NIEO programme. They seek to restructure their relations with the centers of the world economy in many key sectors of international economic co-operation. Appreciable steps have been taken in that direction.

Of great significance is a package of proposals to re-adjust world trade. Central to them is the integrated programme on raw materials, which proposes to create a mechanism for the just pricing of raw materials and the stabilisation of their markets through concluding about twenty international trade agreements on major commodity exports of the young states. Markets are to be regulated by manoeuvring the 'buffer stocks' of major commodities, which are built up by financing from a specialised common fund. Although the possibilities of such a mechanism are generally limited, and it cannot, naturally, remove the causes of sharp fluctuations of commodity prices, its potentially stabilising impact on the raw materials markets is beyond doubt. If realised, the integrated programme would narrow the range of fluctuations of commodity prices, bringing them nearer to the prices of manufactured goods and enabling the exporters to earn additional income for the development of the mining industry and the plantation farming and the expansion of production of raw materials.

In the sphere of industrial development, the newly-free countries declared their intention to raise by the year 2000 their share in the world industrial output to 25 per cent. They raised the question of being given wider access to

the markets of manufactured goods. Proposals by developing countries foresee that developed countries grant them unilateral preferences, i.e., lifting or substantially lowering duties on imports of industrial goods from the Third World countries and at the same time giving the developing countries freedom of action in protecting through customs policies their young industries.

A faster industrial development and increased industrial exports in no small measure depend on improving procedures in the transfer of technology. The developing countries' proposals on restructuring that sphere of international economic cooperation call for recognition by all states of the Code of Conduct by Transfer of Technology. The draft code prohibits the restricted business practice. For instance, there are clauses forbidding the developing countries which are recipients of that technology to manufacture export-oriented goods, to inroduce on its own any changes in that technology, to apply it for purposes other than those specified in the agreement, etc., that is, clauses that practically deprive these countries of opportunity to dispose of the technology in their own interests. The draft renounces the practice of transferring technology in the form of so-called single 'packages' where plant and technology form parts of a general contract which includes such other stipulations, as delivery of equipment and materials, rendering of managerial services, etc. (which, as a rule, are very costly). The draft also provides criteria for determining 'just prices' of technology.

In the monetary and financial sphere, the NIEO envisages an increased amount of resources to be granted to developing countries. It is proposed that up to 1 per cent of the developed countries' GDP be allocated for the aid purposes, including 0.7 per cent in the form of easy-terms government aid. Since the problem of the external indebtedness of developing countries became especially acute in the early 1980's, they raised the question of changing the terms of external financing and the possible debt discharging of the least developed countries on government loans, rescheduling debts, and lowering the interest rates on the credits received, granting them some other privileges.

They also insisted on increased participation in running international monetary and financial institutions (primarily the IMF), and on reforms in the crediting practices of these institutions to ensure just allocation of international finances.

Appraising the results of the struggle of developing countries for a new international economic order, there is no denying that it has given the newly-free nations definite tangible fruits. First of all, they won international recognition of the sovereignty of the Third World countries over their national resources, making it possible for them to raise on this basis their share of the revenues from the sales of mineral and agricultural raw material in external markets. The oil-producing countries have achieved the most appreciable gains to their credit thanks to the redistribution in their favour of profits from petroleum exports (tough the drop in prices of liquid fuels registered in 1986 decreased their respective incomes, the latter considerably exceed the levels of the late 1960's and early 1970's).

In the sphere of international trade, the developing countries made headway in creating international institutional structures essential for the realisation of the integrated programme on raw materails. The formation of the 'common fund' is nearing completion. This will make it possible to initiate practical measures to stabilise commodity markets. The countries of the Third World have succeeded in compelling Western powers to institute a non-mutual preferential treatment of imports of their manufactures, although the established practice is often violated.

In the sphere of currency and finances, the financing of developing countries through government channels has somewhat widened. Official aid for development grew from 7.8 billion current dollars in 1971-72 to 26.7 billion current dollars in 1981-82. The share of the transferred resources in the GDP of the developed capitalist countries somewhat rose, from 0.33 per cent to 0.37. However, it lags far behind the targets adopted by the UN for developed capitalist countries—0.7 per cent of their GDP—which they should grant as aid to developing states. Following the adoption of the NIEO programme, international fin-

ancial institutions began to play an increasing role in granting resources to developing countries. Their share in the general inflow of allocated funds rose from 10 per cent in 1971-72 to 13.8 in 1981-82. The subsidies and soft credits granted by these institutions in the same period increased from 14.1 per cent to 21.7 per cent. The role of international financial institutions in granting soft credits became of substantial significance for some groups of developing countries. In 1981 they accounted for 34.1 per cent of the entire aid received by the least developed countries.

Vigorous efforts of the developing countries to implement the NIEO programme strengthened their positions in their relations with TNCs. The latter have been compelled to consider more carefully the state sovereignty of the Third World countries, they began to participate on a broader scale in the programmes of national development and cooperate more closely with national private capital, which somewhat increased the inflow of new plant and technology into the developing countries.

It would, of course, be wrong to overestimate these results. They are essentially only first steps to implement the NIEO programme. At the same time, the decade since its adoption has demonstrated the great difficulties the developing countries face in the struggle for their legitimate rights and interests. As was noted, one of the most acute problems they face is absence of unanimity among the developing countries themselves on some issues of the NIEO programme. This is largely due to the differences in their real economic interests. Thus, the rise in the prices of oil, while bringing great profits to its exporters, affected very adversely in the 1970's and early 1980's the position of most newly-free countries importing petroleum. There is also a substantial divergence of interests between the developing countries party to international associations on raw materials and the developing countries importing these commodities.

Another major circumstance hindering the fight for a new international economic order consists in that the leading positions in that movement are now held by countries

which make moderate demands and are prepared to limit themselves to partial concessions. As to the radical-minded democratic forces' intent to implement the NIEO platform as a comprehensive and integral programme, they are just gathering strength. The future course of the NIEO movement largely depends on how united and active these forces will be.

Lastly, the quest for most effective forms of the struggle of the developing countries for their interests is also a serious problem. As the experience of the 1970's and early 1980's showed, to achieve their aims developing countries employed such a powerful instrument of influence as oil. But due to the partial restructuring of the power industry and the steps taken to save liquid fuels and other measures, the centres of the world economy managed to somehow adapt themselves to the new situation. This led to major changes in the world oil market—a deficit of liquid fuel was superseded by its surplus, and 1986 witnessed a considerable drop in oil prices. Asa result, the NIEO movement has been practically deprived of this major economic lever. Thus far, they do not have any other equally effective means of exercising economic pressure. What they mainly have is merely moral and political levers, which are certainly very important, but do not suffice to make the above centres to grant them indispensable economic concessions.

## 4. Western Resistance

The developed capitalist countries have always firmly opposed the NIEO programme. They tried to prevent that programme from being adopted by the UN. But realising that developing countries were practically unanimous in supporting it and considering the positive stand by socialist countries, the West was compelled to agree to the adoption of respective resolutions. However, immediately after the voting, representatives of some Western countries made statements expressing their disagreement with many provisions of the programme. The greatest objections were to those provisions which dealt with the sovereignty of the

young states over their natural resources, including their right to nationalise foreign property, and also to the functioning of commodity associations of countries. The developed capitalist countries insisted that the UN decisions on the NIEO issues should not be binding. They rejected the point stating their responsibility for former colonial exploitation and demanded that compensatory payments for the nationalised foreign property be made according to international rules, and not in line with local legislation of the young states.

The developing countries' efforts to implement the NIEO programme met with even more stubborn resistance on the part of the West. Though official and business quarters of Western countries were very vociferous, making high-flown pronouncements in favour of restructuring international economic relations, actually they primarily sought to block the implementation of the NIEO programme and to emasculate the democratic and just elements. This policy was primarily manifested in the Western attempts to dissolve the NIEO as a single programme, confining it to negotiations on particular isolated problems. It was for that reason that Western representatives refused to participate in so-called 'global talks' to institute the new international order, proposed by developing countries as a means of discussing their demands in a single package.

Attempts to reverse developments and nullify even those partial concessions and benefits which the developing world received in the initial years following the adoption of the NIEO programme, constitute a major aspect of the West's obstructionist policy. A fierce attack is being launched against the principle of granting the developing countries unilateral non-reciprocal advantages in trade. That principle, which was recognised in the 1970's, is now being devaluated by means of the concept of 'partial reciprocity' in trade relations between capitalist centres and developing countries. This implies certain counter concessions from the latter, as well as the West's differentiated approach towards granting priviliges to the developing countries depending on the level of their development, the political and the economic policies being pursued.

The developed capitalist countries are intensifying their commercial and economic pressures on the developing world. Indicative in this respect are the latest changes in the trade policies of these states. The general protectionist trend is being augmented—over half of the capitalist world trade falls now under various kinds of restrictions. The selective and discriminatory nature of the protectionist measures in the developed capitalist countries is growing, creating the legal basis for discriminating restrictions in trade. Measures of covert protectionism are being used on an ever larger scale in violation of the existing international legal regulations and rules, are also instruments of economic pressure on exporting countries (above all, the developing ones), the aim being to induce them to curtail their exports. An entire system of 'voluntary' export restrictions is being created. Cases have become more frequent when Western states introduce import restrictions for political considerations.

Essentially, what we have here is the effort by the West to undermine the process of normalising international trade based on the NIEO programme, counterposing to it the preservatory of unequal trade relations. It is precisely these aims that are served by their concrete steps to legalise their discriminatory protectionist practice, discriminating approaches employed in granting developing countries commercial and political concessions with political and other strings attached. The involving of the Third World countries in groups and blocs (of the Lomé Convention type), which tie them to the West also serve these purposes.

Intensifying pressures in the sphere of world economy and impeding the realisation of the NIEO programme, the developed capitalist states endeavour to exert greater pressures on the home economic policies of developing countries as well. Taking advantage of the growing difficulties of the Third World, aggravated by the economic crisis of the early 1980's, Western countries try to induce many developing countries to curtail their public sector and provide an unlimited authority to foreign capital.

All this represents a threat to the national interests of

the newly-liberated nations compelling them to look for ways of an active realisation of the NIEO programme.

## 5. The Struggle Goes On

Aggravation of economic difficulties in the developing world in the 1980's and increased economic pressures on the part of international capital make the quest for new forms of struggle for the NIEO especially urgent. The situation has evoked intense dissatisfaction not only among the overwhelming majority of the population who shoulder the brunt of the great material hardships, but also among the ruling classes who fear the intensification of social and political instability. This undoubtedly, cannot but broaden the base of the NIEO movement. Today, this programme is known to, and supported by, the broadest social groups in the developing world, not merely by the 'elite strata'.

Also very important is the fact that there is a growing realisation among the ruling circles in developing countries that the NIEO programme can only be fully implemented in the conditions of peace. Awareness of the need to curb the arms race and eliminate the threat of a disastrous war has increasingly become a major factor in their struggle to resolve the key global problems. This is evidenced by the principal economic documents of both the Group of 77 and the Non-alignment movement as a whole.

Greater unity and solidarity of developing countries and a broader use of all forms of cooperation is urgently needed in the struggle for the new international economic order. This can be achieved on the basis of the concept of 'collective self-reliance' being worked out by the developing countries .That concept presupposes the establishment of stable mutual contacts and ties at subregional, regional and interregional levels. Its basic elements comprise trade and political cooperation between state-owned trade organisations, setting up multinational marketing and producer enterprises, co-operation in the transfer of technology, rendering assistance to the least developed continental and

insular states, improving the insurance system, the monetary-fiinancial and technical cooperation.

In recent years increasingly greater attention has been paid by the developing countries to the creation of the Global System of Trade Preferences (GSTP). In May 1986 the agreement on the foundation of the GSTP was concluded in Brazilia, supported, by 51 developing countries. This, undoubtedly, is a major event, for the creation of the GSTP marks the emergence of a new vast preferential zone, which cannot, but have an impact on international trade.

Experience shows that the establishment of stable mutual ties between the developing countries is not a simple process. It calls for overcoming specific objective difficulties which are the result of linguistic, cultural, institutional and other differences, the lack of the necessary knowledge concerning mutual possibilities and needs. It also implies the removal of contradictions arising as a result of selfish ambitions, and the desire of the larger and more powerful states to gain advantages at the expense of their weaker partners. The process of differentiation now under way in the developing world also makes for complications, leading as it does to the economic stratification of developing countries and the emergence of richer states inclined to compromise with the world economic centres. And yet, the common interests in the effort to restructure international economic relations urgently require that all developing countries join forces and form a united front against international monopoly capital. Without this, the newly-free countries will be unable to assert the principles of justice and equality and uphold their legitimate rights and interests.

Strengthening co-operation of developing countries with all progressive forces and, above all, with the socialist world community, is also a guarantee of success in the fight for the NIEO. The Soviet Union, other socialist states have always been consistent fighters for the elimination of all forms of inequality and discrimination in international economic relations. Socialist states consistently support all provisions of the NIEO programme meeting the basic na-

tional interests of developing countries and the purposes of strengthening their political independence and winning economic freedom.

The developing countries are increasingly aware of the fact that historically they have common interests with world socialism in their struggle against international monopoly capital. In this respect attempts to make economic demands on socialist states which are sometimes formulated in documents of the developing countries are clearly groundless. These demands are based on opposing the 'developed North' to the 'backward South' with no account being taken of social and economic structures and historical peculiarities of particular countries. One cannot accept as equally just the economic demands made indiscriminately on the developed capitalist states which used to exploit the resources and the wealth of their former colonies and which now continue to do the same in respect to the young states, and those made on socialist countries that have never had any colonies, and which actively support the national-liberation movements of Asian, African and Latin American countries aiding them to build up an independent economy and strengthen their political independence. Such demands are legitimate when presented to capitalist states, but they are groundless in respect to socialist countries.

Such elements as making incumbent on the socialist countries the obligation to allocate a fixed part of the GDP to the developing states in the form of aid, demands that they increase financial contributions, including in hard currency, to various funds, proposals that the Soviet Union should abrogate the developing countries' indebtedness incurred in Soviet deliveries of various material values adversely affect the effectiveness of the NIEO programme.

It should be noted that of late realisation is growing among the developing countries that there are drastic differences between the developed capitalist countries and the socialist community: developing countries have become more prepared to consider the specific features of the trade and economic systems of socialist state, in working out multilateral agreements, including those prepared in the

framework of the UN. This is quite natural. One cannot but see that the USSR and the other socialist countries are already basing their economic cooperation with the developing world on the principles laid down in the NIEO programme.

The trade of the Soviet Union and the other socialist countries with developing countries is based on the principles of equality, justice, and sincere desire to render their partners in the Third World effective assistance in solving their complex problems. More than 20 years ago the Soviet Union lifted all duties on goods imported from developing countries. Agreements on technical and scientific cooperation concluded by the USSR with developing countries provide for mutually advantageous conditions for long-term periods. They are insured against uncontrollable economic upheavals characteristic of the capitalist economy. Rendering assistance to developing national economies, socialist states do not seek to acquire the right to own enterprises built with their help. Nor do they seek to establish control over their partners' economy.

Further extension of cooperation between socialist and developing countries will serve as a reliable bulwark in the struggle for the NIEO and greater economic independence of the young nations.

These aims guided the USSR when it advanced the Programme of International Economic Security which was supported by other socialist countries and many developing countries. Our next chapter deals at length with that programme.

*Questions for Self-examination*

—What are the main reasons behind the developing countries' work for the introduction of the NIEO?

—What is the Group of 77 and what is its role in working out and implementing the NIEO programme?

—What are the basic principles of the NIEO?

—What is its main goal?

—Name the main areas where the NIEO programme is being realised.

—What are the inner contradictions of the NIEO programme?

—What are the general results of the developing countries' fight for the NIEO?

—What are the causes of difficulties in implementing the NIEO programme?

—How do the developed capitalist countries treat the NIEO programme?

—What is the guarantee of success of the effort to establish the NIEO?

*Topics for Discussion*

—Establishment of the NIEO and socio-economic progress of developing countries.

—Problems and contradictions of the NIEO programme.

CHAPTER 14

# Programme of International Economic Security

To ensure peaceful development and firm stable security for all peoples—such is the main task facing humanity today. But how can this task be accomplished when there are sharp contradictions between individual countries, when complex opposing trends persist and the world bristles with such glaring contrasts as progress and crying backwardness, wealth and poverty, affluence and hunger? The world gripped by wast 'areas of tensions' where the interests of capitalism and socialism clash, as do the interests of developed capitalist countries and of developing countries, of the rich and the poor.

The path to the preservation of peace and the prevention of disastrous war lies exclusively through new thinking which recognises the objectively existing realities of the contemporary world. One such reality is the understanding that the interests of all countries and all peoples should be rationally considered in world affairs. For can one hope that international relations will be built on a just basis if they were to be determined by the interests of the Soviet Union alone or exclusively by those of the developed capitalist countries? The answer is self-evident. What is needed is a balanced concern for the interests of all existing groups of states: socialist, developed capitalist and developing.

Another and no less important reality is the interdependence of the world community resulting from the indivisibility of the world and the imperative need to unite the effort of all nations to provide for decent conditions of life

on Earth and resolve such global problems as the preservation of the environment, protection of health and overcoming hunger and poverty.

Lastly, the need to recognise the terrible threat inherent in nuclear weapons is also an objective reality. Mastering the energy of the atom, man at the same time brought about a deadly menace to his very existence. Never have the words of Albert Einstein been more to the point that if mankind is to survive and progress, there must be new thinking as regards modern weapons. For the nuclear potential amassed suffices to destroy all life on Earth many times over. One strategic nuclear submarine carries the destructive power equivalent which is many times as high as that which was experienced during the last world wars. And such submarines are counted not by the dozens, but by the hundreds. And this means that, while not shutting one's eyes to the persistent social, political and ideological differences, it is necessary to pursue in international affairs contained, circumspect and responsible policies directed toward just relations and mutual respect in international intercourse and cooperation.

## 1. The Concept of a Comprehensive System of International Security

The objective realities noted earlier form the basis of the concept of a comprehensive system of international security. What is the meaning of the concept and what are its key principles?

One of the points of departure of that concept consists in that nuclear weapons must not be a means of serving political, economic, ideological or any other ends. Such an approach implies the renunciation of the traditional concepts of war and peace. For it was the political function of war that has been always invoked to vindicate it. Nuclear war cannot realise political ends, for there will be neither winners nor losers in a global nuclear holocaust. As the US economist Prof. Galbraith aptly noted if the irremedial happened, you would not be able to distinguish the ashes of socialism from the ashes of capitalism. Inci-

dentally, this applies in full measure to non-nuclear conflicts as well, for military technology has reached the point that makes the destructive consequences of conventional wars quite comparable to those of nuclear. Thus the need to renounce forever all attempts to use force in world politics.

Another premise of the concept of a comprehensive system of international security consists in that no state may entertain the illusion that it can defend itself exclusively by military and technical means by creating a most powerful defence, be it on Earth or in outer space. In the world today, the approximate military and strategic balance between the USSR and the USA, between the Warsaw Treaty and NATO is objectively instrumental in preserving peace. But security cannot infinitely rest on the doctrines of deterrence and retaliation. The present level of the relationship of the nuclear potentials of the confronting countries has soared too high, making the peace an extremely fragile structure. If the arms race on Earth is not stopped and moreover is extended into outer space, the existing high rates of piling up and improving nuclear weapons will greatly increase. Thus such limits could be reached where even parity would cease to be a factor of containment. Moreover, the creation and deployment of such weapons in outer space will only aggravate the situation. 'Star wars' is no alternative to the nuclear threat, they are just a new powerful factor of its intensification.

A third major element of the concept of the comprehensive international security system is the recognition that security is one and indivisible. Security will never become a reality unless it is equally enjoyed by all. No country can consider itself to be secure prejudicing the security of other countries. Interdependence in this sphere also implies the need to recognise another major circumstance—no one has the right to place national or the security of allies above international security. These three concepts have become today indissolubly interconnected. In other words, both national and coalitional security is no more than a fiction unless they form part of the truly general and comprehensive security. This proposition is corroborat-

ed by the conclusions of an authoritative economic commission which was headed by the late Olof Palme. It concluded that in the nuclear age states cannot ensure their security at the expense of others. It is only by joint efforts and pursuing a policy of mutual restraint that people can live without fear of war and destruction.

As its fourth element the concept of comprehensive international security presupposes a radical change in military doctrines. The latter should become strictly defensive. This, in turn, is associated with such new concepts as reasonable adequacy of armaments, non-offensive defence, an end to the imbalance and asymmetry in various kinds of armed forces, disengagement of offensive troops between the two blocs. The socialist countries in Europe are quite prepared to advance along that path. In 1987, a meeting of the Political Consultative Committee held in Berlin adopted an important document: *On the Military Doctrine of the Warsaw Treaty Member States.* In it socialist countries formulated the essence of their strictly defensive doctrine as follows: 'They will never, under any circumstances, start hostilities against any country or an alliance of countries, unless they themselves become the target of a military attack.

'They will never be the first to use nuclear weapons.

'They have no territorial claims upon any state either in Europe or outside it.

'They do not view any state or any nation as their enemy. On the contrary, they are prepared to build relations with all countries without exception on the basis of mutual regard for the interests of security and peaceful coexistence.'[1]

The implementation of the concept of a comprehensive system of international security is connected above all with the process of limiting armaments and disarmament. The USSR proposed a plan for a stage-by-stage elimination of nuclear weapons by the years 2000 and began intensive talks with the US on the implementation of these proposals. These efforts have been crowned with success, as we noted in Chapter 11. Elimination of medium and shorter range missiles in Europe, a 50 per-cent cut in

strategic offensive missiles, constitutes a real step toward secure peace. Still bigger steps are ahead connected as they are with the liquidation of chemical weapons and other means of mass destruction, as well as the setting of limits to conventional armaments. On the agenda are also such major issues as putting an end to all nuclear weapon tests, limiting the military potentials of states to reasonable adequacy, disbanding military groupings (and as the initial step—stopping to enlarge the existing ones and forming new ones), balanced and commensurate reduction of war budgets.

A distinctive feature of the concept is its orientation on a comprehensive approach to international relations. If formerly the concept of security covered only the military sphere, today it embraces all major aspects of international life. In particular, in the political sphere the concept recognises that each people has the sovereign right to choose the ways and forms of its social development meeting its national aspirations and ideals. The concept also implies just political settlement of international crises and regional conflicts, the working out of measures designed to strengthen trust among states and their alliance, the creation of effective guarantees against outside attack, and inviolability of their borders. Adoption of effective measures to combat international terrorism and ensure safety in the use of international land, air and sea routes, may also become an important element of that concept.

By and large, the concept of comprehensive security supported by most countries (at the 41st session of the UN General Assembly representatives of 102 states voted for the resolution on the comprehensive system of international security proposed by socialist countries), is profoundly humane in character. Its aim is not to bestow on mankind another Utopian project, but to meet and embody the basic interests of all peoples, making peaceful coexistence a universal principle of international relations.

## 2. What Is International Economic Security?

International Economic Security (IES) intended to place economic relations between countries on a more sound footing, forms an important part of the comprehensive system of international security. In general, its significance is especially great, for the economic sphere is a source of numerous sharp contradictions and controversies often leading to acute political and military tensions. There is every ground to state that efforts to establish a more secure peace may prove to the of little use if international economic problems are not resolved simultaneously and justly.

The very concept of international economic security implies primarily the renounciation of the use or threat of forceful methods in the economic sphere. It also means the protection of legitimate rights and interests of states, the creation of reliable guarantees that they shall not be violated. In 1985, the resolution of the UN General Assembly, International Economic Security, was supported by the majority of the UN members (almost 100 countries). This clearly demonstrates that international economic security has become the imperative of our time. It is also important to stress that the concept of IES is not a substitute for basic resolutions and documents adopted earlier by the UN General Assembly on the restructuring of international economic relations and the establishment of a new international economic order. Its purpose is to stimulate the search for common elements in the various approaches to the solution of world economic problems and to promote trust in international economic relations.

The objective need to ensure the IES is dictated by the realities of today—the growing instability of the world capitalist economy, the dangerous phenomena in the sphere of world economic relations and the imbalances in trade, monetary, scientific and technological relations among states. The plight of developing countries is especially grave. In the 1980's, their rates of economic growth sharply slowed down. Their basic socio-economic indicators deteriorated and their lagging behind the centres of the world

economy intensified. Thus, the growth rates of GDP of developing countries, which in 1960-1980 amounted to 5 per cent, dropped in the 1980's to 1.5 per cent, while the industrial growth rates decreased by half. The GDP per capita also tended to decrease. In 1980 it amounted to $534, in 1983[2] it dropped to $515, while in 1985 the figure was $530. Basically, these unfavourable trends were due to external factors, that is the unequal position of developing countries in the system of world economic relations. The newly-free countries experienced increasing pressures on the part of developed states and their monopolies in all the main spheres of external economic activities.

International monopoly capital did not fail to take advantage of new developments and phenomena that appeared in the 1970's and 1980's. In this period, a vigorous restructuring of industrial production was taking place linked with the curtailment of material-intensive industries and the expansion of the science-intensive. Of great significance were measures to economise the raw materials and fuels, to make greater use of secondary resources and to extract raw materials and fuels in the newly developed areas (the North Sea, Alaska, Canada the Northern part of Scandinavia, South Africa). All this led to relatively less demand for raw materials and fuels exported by developing countries and, consequently, to a drop in prices of these commodities. Thus, between 1982 and 1985, the developing countries lost $55 billion as a result of lower prices of raw materials. In 1986, prices of oil fell almost twofold and the incomes of the petroleum-exporting countries dropped by $52 billion despite the increased deliveries. At the same time, international monopolies inflated prices of goods purchased by developing countries—from 1986 these prices grew by 17 per cent, causing the losses of billions dollars to developing countries.

Financial pressures also increased sharply. The unbearable burden of external debts imposed in the past on the developing countries by foreign banks, the usurious interest rates compel them to pay enormous sums which they themselves badly need for national development. International banks annually pump out of developing countries

more than $60 billion as interest alone on loans, while general repayments are now in excess of $120 billion annually. This results in a net outflow of financial resources from developing countries. In 1983, it amounted to $300,000,000 to reach $31 billion in 1985. In 1986 it was in excess of $45 billion and continues to rise. Backward and poor countries financially support the rich and developed states--such is the paradox of the present state of affairs in the world economy.

The system of international economic security is designed to defend the vital interests of developing countries. It should provide for their equal and just participation in international cooperation. At the same time, this system should meet the vital interests of all countries, including the developed capitalist. One cannot but note that in today's integral world, unfavourable situations arising in any particular countries in some way or another affect adversely other states.

### 3. The Ways in which International Economic Security Is to Be Achieved

The range of steps essential to ensure the IES, is fairly wide. But five basic points are of key significance. The main of them are the elimination of all forms of discrimination, and the renunciation of the policy of economic blockades and sanctions if such measures are not directly proposed by the world community. In other words, economic ties should not be used for economic and political pressure and interference into the internal affairs of sovereign states. Secondly, a joint search is needed for the just arrangement of foreign indebtedness, which has long transcended the narrow financial framework and must be politically solved without delay, with full consideration of the rights and interests of the developing states. Thirdly, it is necessary to establish a new world economic order guaranteeing equal economic security for all states. Fourthly, it is necessary to work out the principles of the use, on behalf of the world community and above all the de-

veloping countries, of resources that would be released as a result of the reduction of war budgets. And fifthly, there should be united exploration and peaceful use of outer space and the resolution of crucial global problems.

Association of states should be free of arbitrary actions, embargoes and boycotts, and of commercial, credit and technological blockades. Principles of stability and reliability should underlie mutual contacts. This is especially important now that foreign-economic transactions have grown in scale and become more intricate, and risks in political relations are fraught with greater dangers.

It is clear that the creation of the IES would place international trade on a healthier foundation. Trade is increasingly suffering from numerous restrictions and discriminative measures to which capitalist centres resort on an essentially global scale. For one, increasingly more rigid barriers obstruct exports of developing countries. In 1987, the US established additional duties on 300 commodities traditionally marketed by developing countries from Asia, Africa, and Latin America.

A great variety of discriminative sanctions and bans are being used in relation to socialist countries. In resorting to them, some developed capitalist countries hope to deliberately aggravate the economic difficulties of socialist countries and check their economic progress. A particular form of pressure brought to bear on the USSR and other socialist countries by the US are the restrictions and bans in selling so-called strategic goods, in transferring advanced technologies and granting credits. Discriminative and restrictive practices also take place among the developed capitalist countries themselves. All this runs counter to the need to expand and intensify the international division of labour. It prevents equal participation in it of all states and regions.

The resolution of the problem of external indebtedness of developing countries has acquired paramount significance today. Of particular importance here is that the crisis of external debt of developing countries affects their financial relations with the developed capitalist countries. In relations with the world socialist community this problem

is non-existent. The indebtedness of developing countries to socialist countries is relatively small (it does not exceed 3 per cent of the total of their external debt). Particularly important is that it is being repaid in a planned manner on the basis of mutual deliveries of both traditional goods and goods manufactured by the young industries of developing countries.

A just and radical solution of the problem of external indebtedness of developing countries is especially urgent also since in the present conditions they are practically unable to repay the debts. The resultant situation is fraught with serious social, economic and political repercussions in international relations. It is evident that to resolve this problem a comprehensive approach is needed, one that will be based on the restructuring of international economic relations on principles of equality, disarmament to promote development, renouncing the use of monetary and financial means for political pressures and interference into, internal affairs, and on stability and harmony in the world economy.

A number of socialist countries have advanced a series of measures to ease the debt burden of the Third World. Central to them are proposals to limit the annual servicing of external debts to such amounts as would not hinder socio-economic development, put an end to protectionism, to lower interest rates on loans and credits, to stabilise rates of exchange, to re-adjust the monetary and financial system taking into consideration the interests of all states and to democratise financial institutions operating within the system. More specifically, it is proposed to reach agreement in the world community to lower payments of interest banking credits, work out extra benefits for the least developed countries, limit yearly debt repayments of each developing country to a definite share of its export revenues, accept as payments for debts the export goods of the debtor nations and lift protection restrictions for their imports, and to refrain from charging extra interests on the prolonged repayment of loans and the re-financing of the indebtedness.[4]

Socialist countries urge all states for joint efforts to re-

solve the problem of indebtedness. They are prepared to consider any reasonable proposals to solve that problem coming from developed and developing countries, regional, public and financial organisations. In this connection, of especial significance are the UN efforts in this sphere. The latter should assume a greater responsibility for finding a way out of the impasse, considering all aspects of the debt situation and working out measures based on the direct interconnection between indebtedness and development.

Setting up an international mechanism of financing development through disarmament is a key element of the IES. There are different approaches to the use of the resources released as the result of disarmament. France, for example, proposes to set up an international fund of disarmament for development based on financial contributions of states possessing the largest military arsenals. A group of UN experts and some developing countries advance the idea of placing into a special fund a certain part of the war budgets of big military powers, particularly the permanent members of the Security Council. The well-known Brandt Commission consisting of prominent political leaders and public figures from many countries, proposes creating such a fund by means of deductions from all sales of war materiel and military services by the industrially developed countries.[5]

It can readily be seen that all these proposals have one and the same serious drawback: the proposed principle of 'levying a tax' is separated from actual disarmament and may well undermine the very concept of the interconnection between disarmament and development. The USSR considers that creation within the UN framework of a mechanism for funding development should go hand in hand with the real process of curbing the arms race. It firmly believes that reduction of military spending is an effective and proper way of linking up directly the curbing of the arms race and disarmament with the allocation of additional resources for development. This is a potential source of funds for financing development through disarmament.

An organised allocation of resources that could be re-

leased as the result of disarmament is a rather complex matter. Part of the resources will be used to restructure the economies of developed countries which will be directed to the civilian production. Simultaneously, an increasing share will be channelled into the social and economic development of the young states. It goes without saying that these resources should be an addition to the already existing forms of assistance without curtailing its other programmes. Also they should be granted on terms that would not aggravate the external indebtedness of developing countries.

Allocation of the resources released could be the task of a UN special committee composed of representatives of states-permanent members of the Security Council, socialist countries and West European countries, regional groups of Asia, Africa and Latin America. At present, widely discussed are the criteria to be accepted as the basis for granting assistance to developing countries. Since both — disarmament and development are involved, it is necessary to take into account their economic and military aspects.

From the economic point of view, the international community could, evidently, prefer to render additional assistance primarily to the poorest countries, which badly need resources to finance programmes designed to speed up their economic development and overcome poverty of the broad mass of the people. Effective assistance should be also rendered to states carrying out far-reaching progressive social and economic reforms, taking steps to mobilise their own resources for development or those engaged in implementing large-scale international projects—bilateral, multilateral, subregional or regional—which are of great importance to developing countries.

From the military point of view, all other conditions being equal, eligible for assistance in the form of the released funds could be states at the lowest stage of military-economic preparedness, wishing to decrease the non-productive burden of military spending and actively struggling for peace and disarmament. The basic criterion here may be the fulfilment by the country concerned of measures and commitments in the field of disarmament, in particular,

the reduction of its armed forces and the war budget to the levels earlier agreed upon and the use of the funds saved for peaceful purposes.

The clearly defined international legal rules based on the Charter of the UN, its resolutions on disarmament, development and their interconnection, are indispensable in this context to decide in no uncertain terms what states should receive allocations from disarmament and for which states they should be limited or banned altogether. It stands to reason that racist and militarist regimes cannot be considered for such assistance. Nor can the initiators of local or regional conflicts and the countries dragged into these conflicts be put on a par. The allocations must not be used for purposes other than those of rendering economic assistance to the recipient countries, respecting their rights and interests and giving them a free hand in deciding on their social and economic development.

Creation of the system of international economic security is most closely connected with the realisation of the NIEO. In the framework of that system, proper understanding of the long-term interests of the West, developing and socialist countries may lay the groundwork for elaborating a world-wide strategy of cooperation. That system should embrace all spheres of international economic life, especially those in which conditions obstruct the developing countries' progress and hinder a sound economic exchange between partners. Close interaction to establish a new international economic order and international economic security is an earnest of a more stable peace and unhindered progress for all nations.

Lastly, international economic security is a prerequisite for the joint actions of all countries to solve global problems. This applies not only to overcoming backwardness in developing countries, but also to the protection of the environment, the solution of energy, raw-materials, food and demographic problems, elimination of serious diseases and the development of the riches of the World Ocean.

The use of outer space for peaceful purposes occupies an exceptionally prominent place among all these problems. In contradistinction to the militarisation of outer space

embodied in 'star wars', the USSR advances a programme for peaceable cooperation in outer space. The experience of such a cooperation demonstrates that it could be highly productive. Suffice it to recall, for example, the joint Soviet-American project Soyuz -Apollo, the experiments carried out jointly to explore Venus and the Halley's comet. It is common knowledge that Soviet inter-planetary stations were of help in directing the flight of the Jiotto spacecraft which followed in their wake. Experience has also shown that the greater the joint efforts in the exploration of outer space, the more tangible their benefits for the developed and the developing countries alike, and the more accessible are their results to countries not having their own space technologies.

These are the real ways for the creation of a system of international economic security. But how is the IES treated in the contemporary world? What are the attitudes of various groups of countries to that concept?

## 4. Position of the West

Economic thinking which today cannot fully disregard objective conditions (as often in the past), recognises the distorted state of world economic relations and the urgent problems awaiting resolution. But when it comes to practical steps to resolve these problems, the apologists of the West strive to preserve intact its privileges. Overtly or covertly, they support economic policies aimed at providing advantages to rich countries at the expense of the poor, justifying discrimination and all kinds of economic and financial pressures. The above factors underlie the approach of many Western countries to international economic security and their efforts to hamper its realisation. They also determine various steps to block all practical measures aimed at making international economic relations more democratic. Representatives of developed capitalist countries try to call in question the need for the IES and its key principles.

They assert that the principle of non-discrimination has long become the fundamental principle in commercial and

economic relaitons in today's world. They claim that all leading capitalist countries adhere to it unfailingly. To substantiate their claims they usually refer to the steady lifting of obstacles in the path of the international movement of capital, commodities and labour. They assert that non-discrimination and an 'open economy' are just two sides of one and the same coin. To support this claim facts are cited to the effect that since 1947 tariffs in Western countries have fallen by two-thirds and that over 35 per cent of the machinery and 25 per cent of the motor vehicles sold in the US are of foreign origin, that one-fifth of all the goods consumed in this country are of foreign-make, that foreign competition on the US home market invades the sphere of capital investments and the labour market. These references, however, cannot refute the fact that the USA and other developed capitalist countries widely resort to methods of discrimination, pressures and various kinds of repressions. One has only to note the system of diverse legislations and acts applied to socialist countries and placing them in a position of inequality.

No less vigorous are the attacks against the proposals to settle justly the external indebtedness of developing countries. Some experts try to prove that it is the debtor-nations alone which are fully responsible for the debt burden they shoulder, urging them just to tighten their belts and to fulfil their debt-service obligations and those of repaying interests. It is true that the aggravation of the financial situation in many developing countries compels Western creditors to grant them some partial concessions. A number of countries have been granted postponement of payments, while leading banks made the terms of re-financing external indebtedness somewhat easier. Recently, representatives of official quarters and big banking capital declared the possibility of partially writing off the external debt of the Third World.

But a radical solution of the debt problem is far from being in the offing. International monopoly capital continues to use the debt to bring pressure to bear on the Third World. Leaning for support on international financial organisations (the International Monetary Fund, the In-

ternational Bank for Reconstruction and Development) and the TNCs strive to liberalise investment procedures in developing countries, insisting that part of the external debt be turned into direct investments. Some developing debtor-nations (Mexico, Argentina, Indonesia, Philippines) have been compelled to give in to this pressure and make certain concessions to foreign monopolies.

The West clearly detests certain key propositions of the IES. The industrially developed countries reject the idea of implementing the new international economic order as an integral programme. They want to substitute for it partial agreements with individual developing countries on particular secondary economic problems. The proposals to unite all nations to search actively for ways of solving today's global problems do not thus far meet with positive response.

It would, of course, be wrong to fail to note some new trends developing among the sober-minded and more farsighted representatives of the developed countries who favour a constructive solution to international problems. But there is little hope that these trends will be actually embodied in real deeds, especially in economic relations. TNCs continue to treat the world economy in the old way, that is, one-sidedly and in the pursuit of their selfish ends.

## 5. The Developing World and International Economic Security

It is not by chance that many developing countries favourably regard the IES. This is attributable to their real interests and desire to protect themselves from the growing pressures of capitalist centres which often assume the form of political encroachments on their sovereignty. At the same time, as a result of the process of differentiation, non-identical political orientations and varying degrees of dependence on capitalist centres, not all developing countries are prepared to actively support the IES concept. Evidently, the realisation of what real benefits and ad-

vantages it will bring developing countries will take some time to mature.

But in modern conditions there are some factors contributing to the spread of the concept of the IES among the developing countries. There is the objective need for the young states to intensify their struggle for economic independence, without which progress toward political sovereignty and social progress is inconceivable. The concept of the IES can, undoubtedly, be instrumental in strengthening the positions of developing countries in their hard-fought battle against the subversive activities of TNCs and for ultimate economic liberation. And there is a growing realisation of this objective reality in the developing world.

One more thing is important. The IES reflects a new way of political thinking steadily gaining ground in today's world, and among public and political leaders. This way of thinking implies a clear understanding of the fact that the world today is indivisible and that it is necessary to take into consideration the legitimate interests of all countries, to resolve urgent problems by peaceable means through constructive negotiations. The IES is aimed at uniting efforts in the search for mutually acceptable and realistic approaches. This policy meets the interests of all peoples and will gain its way.

*Questions for Self-examination*

—What is the new way of political thinking?

—What is the essence of the concept of a comprehensive system of international security?

—What are the basic features of the programme of international economic security?

—What objective prerequisites are needed to create the IES?

—List the basic elements of the IES.

—What groundwork should underlie an international mechanism to finance development from the resources released as a result of disarmament?

—How can international cooperation be assured to solve global problems?

—What attitudes do the developed capitalist countries take to the IES system?

—For what reasons do the developing countries support the concept of the IES?

*Topics for Discussion*

—The concept of a comprehensive system of international security and the future of mankind.

—Interconnection between the new world economic order and international economic security.

CHAPTER 15

# The Global Problem of Backwardness and Poverty

International economic security creates conditions for improving the position of each developing country, giving it greater possibilities for socio-economic progress and for overcoming backwardness and poverty. But in recent times a menacing alternative has appeared: if the developing countries do not acquire an equal status in world economic relations, if the concept of a NIEO is not put into practice and no practical solutions are found to the problem of disarmament for development, the situation that would eventually develop would be fraught with unpredictable dangers. In other words, there exists the direct dependence of international peace on the development of Asian, African and Latin American countries, on the effective raising of the living standards of the peoples inhabiting them and on the solution of social and economic problems of the poor countries.

The factors described in the preceding chapters determine the constantly operating trend in the contemporary world: the rich get richer and the poor become poorer. The unnaturality of this trend and its incongruity with the vital interests of increasing numbers of people on our planet engender an explosive situation threatening all, including those who can assuredly partake of the fruits of civilisation in the rich countries.

The aggravation of poverty and social injustice in the world, in which the share of the poor countries in the global population increases rather swiftly, may with the passage of time reach the risky limit whose transpassing would be just as dangerous as to go beyond the limits of

the arms race. The survival of humanity depends not only on the curbing of militarism and the elimination of the threat of a world-wide nuclear conflict. It also depends on providing all peoples with the way of life which contemporary man deserves.

Universal security, political as well as economic, the preservation and advancement of human civilisation are objectively dependent by laws governing the relationship of peoples, on the need to overcome backwardness of those countries which are today termed as poor.

This backwardness and poverty of the overwhelming majority of countries has now become mankind's global problem and its solution must not be regarded as merely a task of national development of each particular country. It is simultaneously a common task for the whole world community.

Below we shall consider this problem which is of key importance to the humankind, laying special emphasis on the spreading of backwardness and poverty on a global scale, we shall also consider the resultant build-up of explosive conflicting potentialities latent in the present-day economic division of the world.

## 1. Backwardness

The backwardness of developing countries can be seen in the gap between the economic development of the centre and the periphery of the world capitalist economy.

As noted earlier, the world capitalist economy comprises a single and integral system of economic relations undergoing incessant change. The role of the centre of that system is played by the three basic conglomerations located in different continents. They are most developed industrially, scientifically, and technologically and concentrate the greater part of financial capital—North America, Western Europe and Japan. The developing countries form the periphery of the world capitalist economy.

Thus, as a single economic system, the world capitalist economy consists of two subsystems—the centre and the periphery. As is the case with every system, the separate

parts (subsystems) of the world capitalist economy are not only interconnected, but are also governed by an objective trend of drawing closer together to form a single entity, with the centre of the system serving as its typological model. The periphery, as a dependent subsystem, not only experiences the determining influence of the centre and functions under the impact of the processes going on in that centre, but in its development it also evolves towards the prototype of a society represented by the centre.

In the system of the world capitalist economy, the centre exercises the control functions in relation to the whole system, the periphery subsystem included. For that reason, the periphery spontaneously shapes itself in the centre's own image regardless of the ideological aims of its ruling groups. For that reason, it is only by strategies of development consciously applied by society that social and economic progress in the Third World can be made to take a different direction, if society considers it undesirable to follow the example of developed capitalist countries, of rich countries whose social system and culture are alien to the spirit of Afro-Asian and Latin American nations.

Evolution towards the model of the centre of the world capitalist economy is above all marked by increasingly greater proliferation in developing countries of modern productive forces that spring up in the centre and spread from it to the entire area of the world capitalist economy. And no matter what scientists and politicians say about the expediency of using 'adequate', 'intermediate' or other special technology, the actual process of development is marked by the penetration into, and an ever wider spread in, the Third World of the new technology typical of the centre of the world capitalist economy. This law-governed process naturally results in the emergence, firstly, of an objective basis to express (measure) quantitatively and qualitatively the backwardness in the development of the productive forces (the gap in labour productivity, determined by the technological equipment of workers and the organisational and managerial structure of the economy may be taken here as the main yardstick). Secondly, differentiation is being accentuated within the Third World.

Its more developed upper crust is now formed by countries which use most widely and efficiently the latest high technologies. The countries where such technologies do not become the basic economic structure, remain the least developed.

The gap in the development of the productive forces constitutes a major element accounting for the backwardness of the poor countries.

The gap in the sphere of social and economic relations is, essentially, a second element of backwardness. As noted earlier, the specific feature of the poor countries consists in their societies having many forms of production, including outdated, as well as pre-capitalist and early-capitalist relations of production. But due to the impact of the law of value operating in the country and the external impulses emanating from the center of the world capitalist economy, what actually takes place is the development of capitalism. The pace of development of capitalism and the sphere of its operation vary from country to country. An important role here is played by socio-economic and political orientation of particular countries. However, some developing countries have already reached the medium level of development of capitalism, which in no way excludes them from the membership of the Third World.

The gap in the levels of development of capitalism is also one of the qualitative and quantitative indicators of backwardness in the framework of the world capitalist economy. Among the more advanced developing countries are countries which are characterised by higher structures of the economy: the private capitalist (some developing countries have developed their own monopolies and even their own transnational corporations), state capitalist and state non-capitalist. In the least developed countries, the majority of the population is linked to the outdated pre-capitalist structures of economy (self-subsistence economy and small-scale commodity production, etc.). In those countries certain pre-capitalist systems of exploitation are still practised.

The third essential element of backwardness comprises

the entire gamut of gaps in the society of the poor countries as compared with the rich, including gaps in the structure and volume of consumption, level of development of infrastructure, as well as such social indicators as the standard of public health, cultural standards, level of literacy, and educational standards in particular.

In this sphere, specific universally human standards, the standards of the world and of modern civilisation expressing the objective needs of man and society are formed regardless of the socio-economic and political system in a particular country. These standards of contemporary civilisation emerge on the basis of the incipient world-wide single economy comprising both the world capitalist and the world socialist economy. At this stage of the historical progress where humankind appears as a single and interconnected global community of the planet (for more detailed description see Chapter 5), certain substantial universal standards increasingly come to the fore in the spheres of production and consumption, the two main spheres of the vital activity of any society. And this is the case in all countries belonging to different social systems.

Furthermore, these universal human standards, such as the per capita consumption of material values (not the luxuries), the number of physicians and teachers per 10,000 of the population, average life expectancy, have now become priorities overshadowing other standards in different social systems.

Each developing country is today part and parcel of the modern global civilisation and, regardless of the path it has chosen for internal development and of its national and traditional distinctions, it reveals itself just as an organised polity and part of humanity today.

Consequently, the essence of backwardness also includes the differences between the realities of life in a poor country and the universal human standards of material and spiritual culture existing at each given moment and expressed in basic indicators characterising the main spheres of the vital activity of each society (society in general).

However, as a member of the world community and representing the overwhelming majority of the world popu-

lation, the developing countries belong to that part of that community which is also encompassed by the world capitalist economy. For that reason, the universal human standards are seen by them as standards striking root in the centre of that economy. Ideologically, this is reflected in the concepts of the 'demonstration effect' and 'catching-up development'.

Proceeding from the theory of 'stages of economic growth' expounded by the well-known US economist W. Rostow, the proponents of these concepts depicted the development of the periphery countries as going in one and the same direction and passing through predetermined stages: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, the age of high mass-consumption and a stage of the quality of life.[1] The concept of the 'demonstration effect' attributed the difficulties and problems of developing countries to the fact that, although in the initial stages of economic growth, but seeing the attractive side of the way of life in the highly developed countries, they try to imitate it lacking at the same time a production base necessary to do this. The concept of the 'catching-up development' sets as the goal of the economic progress of the Third World, an accelerated passage from one stage of growth to another, so that, in the long run, the developing countries would catch up with the states of the centre of the world capitalist economy and enter at least the 'age of mass-consumption', let alone the 'stage of the quality of life'.

All these concepts reflect the realities of life in the poor countries as members of the world community and the fact that universal human standards are also valid for them. But the inadequacy of such a reflection, the desire of the public in the developing countries to follow their own independent road of development without copying the way and style of life of North America or Western Europe, give rise to critical attitudes to these concepts.

Viewed as the gap between the economic development levels of the centre and the periphery of the world capitalist economy, the backwardness of the poor countries becomes a global problem. Its global character

follows from viewing poor countries as the greater part of the world community in which universal human standards are formed, while assessing the situation in each particular country from the standpoint of the adequacy of this situation to these standards, not from the viewpoint of the concept of the 'catching-up development' which orients these countries on copying the economic and social structure of the capitalist centres.

Thus, the backwardness of developing countries is a synthetic category embracing both the character of their own economic structure, the type of their economic mechanism, and the specific way in which they are integrated in the world capitalist economy. Correspondingly, the indicators of backwardness, both quantitative and qualitative, also relate to these two interconnected spheres of the existence and activity of the poor countries.

That separate elements of a system (subsystems in each system) should conform to the essential characteristics of the whole system is a major law of development of every system. The backwardness of the poor countries is expressed by the degree to which their economic development levels do not tally with general standards. The greater the degree the harder they are hit by this inconformity. But such an inconformity cannot but affect the functioning of the system as a whole, let alone its development. The backwardness of the Third World, i.e., its inconformity as a subsystem of the world capitalist economy to the entire system of that economy affects adversely the development of the latter. For that reason, the world economy as a whole stands to benefit from the elimination of the backwardness of developing countries. This also attests to the global nature of the problem of backwardness of the Third World.

## 2. Poverty

Since the population of the Third World constitutes an integral part of the world population, and its larger part at that, and since in the future, judging by the demographic process in developed and developing countries, it is this population that will account for nearly 95 per cent

of all humanity, its living standards will constitute a major global characteristic of civilisation.

Living standards are determined by a great variety of objective and subjective factors. They vary with different people and groups in one and the same country, and from country to country. This has been always the case. However, in our time of a radical turn in the development of humankind, a new situation has arisen here, too, connected as it is with the peculiarities of the economy of the rich and poor countries.

Hitherto, the problems of living standards and the contrasts between wealth and poverty were considered to be the realm of internal social relations of each particular country. Today they are part of international economic relations and of the modern global problems facing humanity.

Wealth and poverty are historical and relative concepts. In the process of economic development the very forms in which wealth is embodied undergo change. With cattle-breeding tribes wealth was measured by the number of heads of cattle, while businessmen of today embody their wealth in bank accounts and portfolios of securities.

The living standard of people may be measured by a selected set of statistical indicators, which enables to make international comparisons. These indicators comprise the volume and structure of consumption, the degree to which the material values produced are equally distributed among all members of society, provision of the population with such vital conditions of life as health services, education, housing, utilities, etc. The quality of life increasingly begins to play an ever greater role in characterising living standards. It depends not only on various quantitative indicators but also on how pure is the air man breathes, whether the surroundings around him are a feast to his eyes, how safe he himself and his possessions are, whether his psyche is safeguarded against stresses and anxieties, how open for him are the possibilities of meeting his material and cultural needs, how securely his mood is protected from emotions that can be aroused by social injustice.

All indicators of the living standard, including the vol-

ume and structure of consumption, which depend on incomes, and the quality of life are characterised in capitalist countries by enormous contrasts and glaring social injustice. There is a vast gap between the richest people (families) and the poorest. Fortunes running into billions of dollars possessed by several dozens of the world's richest people co-exist alongside many people who live in the richest countries of the West without any income or property at all, deprived of all means of subsistence. Death from malnutrition, cold or other privations frequently strikes not only backward provinces of the West, but also its world capitals.

But the poverty in developed countries differs substantially from that in developing countries. In the first case, the poverty of part of the population is not the product of the inadequate development of the productive forces. On the contrary, it stands out in bold relief against the wealth of society generally, since it is caused by social injustice. The contrasts of poverty amidst affluence reveals the deficiencies of a society which fails to provide all its members with the available means of subsistence. Things are different in the developing countries. Here the poverty of the enormous mass of the population is the direct result of the low level of development of the productive forces, supplemented by an inequitable distribution and social injustice.

Social injustice between wealth and poverty is made even worse as a result of racial discrimination. Thus, in the US the average standard of living of the black population falls short of that of the white. In the case of certain national groups (Blacks, Puerto Ricans, Indians) educational standards and literacy are much lower, while unemployment and poverty levels are higher. In the West European countries, workers who are immigrants from Asia, Africa and Latin America are discriminated against.

In developing countries, gaps in living standards are even more conspicuous. The world's richest person resides in a developing country (the Sultan of Brunei). And again, the developing countries are the world region where poverty is spread the most.

But it is not so much the gap between wealth and poverty in each particular country as its transformation into a global problem that generally determines the image of the modern world. This is so because there is an excessive concentration of poverty in developing countries compared with Western countries and the emergence of new forms of poverty of the people of the developing world in comparison with the income levels and the quality of life of the population of the developed countries.

Poverty has two measurements—absolute and relative. The absolute measurement of poverty is the relationship between what man disposes of and his real physical (material) and spiritual requirements as a biological species and member of society. Biologically, man should daily consume a definite number of calories contained in foods of a balanced composition. He must also have adequate protection against weather, etc.

In developing countries about 40 per cent of the population lives in conditions of absolute poverty. According to some estimates, the number of such people amounts to 1.3 billion. A major form of absolute poverty is the hunger and malnutrition of hundreds of millions of people as a result of which about 15 million die on the average every year—more than the number of lives claimed by hostilities during the Second World War, or roughly 30 people every minute.

Absolute poverty also implies poor health and a low physical standard depriving a person of the ability to work or lowering it to such an extent that he finds it impossible to maintain the pace of the modern production. It also implies lack of medical care resulting in death due to diseases that could have been readily cured had modern medical instruments and techniques been used. It implies the lack of dwellings, compelling people to sleep under the open sky or live in shacks and dilapidated slums which defy all standards of decency. It implies no opportunity for an education and to bring up one's children as full participants in society's affairs.

The scale of absolute poverty in the developing world has no precedent in history. Never in the history has there

been such a great number of people suffering from absolute poverty and so remote from the opportunities of our civilisation. In the past, absolute poverty was largely attributable to the generally low level of development of civilisation. Thus, in the Middle Ages entire localities in Europe died as a result of the plague, for the standard of medical care and general sanitary conditions were not adequate to control epidemics. Hunger struck entire countries because the level of development of agriculture was low and its harvests depended predominantly on weather conditions. By contrast, absolute poverty today in developing countries exists and spreads in the midst of such a level of development of world civilisation that could provide all material resources essential for its complete eradication. It is precisely the circumstance that makes absolute poverty the global problem it has never been before.

Relative measurement of poverty involves comparisons of living standards typical of various countries. To assess the material conditions of life in the developing countries, modern indicators are normally used. If we compare the living standard of the population of the developing countries with the West European standard of poverty, 84 per cent of the total population of the Third Wold will remain below the poverty line.

Whereas employment in the developed countries, as a rule, makes it possibile to avoid absolute poverty, in the developing countries many workers, especially in rural areas, cannot get incomes sufficient to provide for themselves and keep their families. The plight of the unemployed and partly employed is even more deplorable.

Relative poverty is apprehended poverty. Being an economic category, it is just as real as absolute poverty. In developing countries the 'demonstration effect' exerted by Western living standards is spread not only via the channels of the mass media. There is another and even more visual channel for it—the way of life of their own elite which copies meticulously the Western style of life. Besides, Western industrial and commercial firms which consider the huge and rapidly growing population of the Third World as a potential market for the expansion of their ac-

tivities, use advertising and other commercial means to instil into the inhabitants of the Third World the desire to possess things identified with a high living standard. Often people's actions are motivated not by their actual needs, but by considerations of prestige. Thus, often people who cannot read and write buy expensive fountain-pens and wear them ostensibly just to look more authoritative.

In these conditions, poverty is conceived as disparity between the desire to buy goods and services and the real possibilities to satisfy this desire. Such relative poverty of the broad mass of population of developing countries grows, despite considerable progress in production and the growth of average per capita incomes.

Poverty in African, Asian and Latin American countries, both absolute and relative, is the product of the contradictions inherent in the development of the world capitalist economy. Compelling the developing countries to accept the world-wide standards of production and consumption, Western corporations simultaneously subject them to more intense exploitation in all spheres of international economic relations noted earlier and thereby preventing them from reaching these standards.

Thus, the entire problem of poverty becomes part of the general global problem of the backwardness of Asian, African and Latin American countries and their unequal position in the world capitalist economy. Furthermore, this interdependence betrays the covert desire of Western business people to preserve or even widen the gap in the living standards of the developed and the developing countries. For it is this gap that enables them to receive higher profits from investments in countries where wages and salaries are much lower than the world average. Labour legislation here does not prohibit excessively intensive and health-hazardous work and trade unions do not wield great power or influence. Moreover the peasants are compelled to sell their produce for next to nothing.

The ruling circles of Western countries and TNCs are just as interested in intensifying the social, proprietory differentiation of society in developing countries, in widening the gap between wealth and poverty. For the rich stratum

of the population which seeks to live by western standards is obliged by its very position to serve them as an ally in increasing their influence and business activities in the poor countries.

However, this widening gulf between wealth and poverty cannot but be fraught with conflicts engendered by the backwardness and poverty of the Third World.

### 3. Potential Conflicts Inherent in Backwardness and Poverty

The backwardness of developing countries in all its manifestations is a source of multiform conflicts both within a particular society and in inter-state relations. The first area of conflicts rooted in backwardness are the internal social and political relations in Asian, African and Latin American countries.

Tribalism-based conflicts derive directly from the backwardness of society in which tribes still exist headed by tribal aristocracy. Tribalism hinders national consolidation and the unity of the peoples of the young states, their economic, social and cultural progress. At the same time, outside forces inimical to these peoples, strive to place at the helm those people who, counter to their countries' national interests, would grant privileges to foreign capital. These forces foster tribalism using it as an instrument for destroying the territorial integrity of countries, including the setting up of separate states.

The tribalism-based conflicts find their extreme manifestation in sanguinary civil wars and massacres which imperil society and play havoc with the national economy of the country concerned, aggravating still more its backwardness and poverty. As examples of such conflicts we may mention prolonged national strife in Uganda and Idi Amin's terror in that country, armed struggle of the Eritrean separatists in Ethiopia, and the like.

Conflicts flaring up on religious grounds have the same roots. Religious fanaticism and intolerance are the hallmarks of the backwardness of society. Medieval Europe went through a prolonged period of religious wars to which

reactionary forces resorted to check economic, social and political progress. Fanaticism and violence under the religious banner are also observed today in some Western countries, for example in Northern Ireland where Catholics are discriminated against.

In developing countries, religious fanaticism often lies behind destructive conflicts, which cause considerable harm to the national economy. One of the reasons for that grave situation is the fact that in their time the colonialists managed to divide their possessions according to religious affinities, bequeathing thereby to the newly-free countries a burdensome heritage of incessent conflicts on religious grounds both within countries and between neighbouring states. Separatism in the cloak of religion is just as reactionary as the tribalism-based conflict.

A host of examples may be cited when conflicts on religious grounds seriously impede economic and social progress in developing countries and threaten to escalate into large-scale conflicts. We shall only note the armed actions of separatists in the Indian State of Punjab who seek to establish the Moslem state of Khalistan.

Backwardness and poverty give birth to other types of conflicts, which are often hard to classify in conventional terms. Thus, in the latter half of the 1970's, power in Kampuchea came into the hands of a regime which unleashed genocide against its own people: out of a population of eight million three million people were killed. The regime deliberately destroyed the national economy, declaring that modern productive forces constituted the source of capitalism and exploitation.

Political instability, the predominance of non-democratic forms of government and methods of forcefully toppling governments are all major elements of the backwardness of developing countries where civil society has not yet developed. The need for national reconciliation arises in one Asian, African or Latin American country after another following devastating civil wars with disastrous economic consequences.

Backwardness also breeds fatal mistakes committed at times by revolutionary forces which sincerely want to ensure

economic and social progress, mistakes that prevent reaching the set goals and sometimes lead to armed violence.

Conflicts in the developing world bred by backwardness and poverty, aggravate both, destroying the already existing economic potential and preventing further economic progress.

Regional conflicts in the Third World also stem from backwardness and poverty. During the entire period of its existence the developing world has been the arena of regional conflicts often leading to wars. Some internal conflicts and civil wars also escalated into regional conflicts.

Responsible for regional conflicts is not only the backwardness of the countries, but also the obsolete system of inter-state relations in the developing world, in which contradictions between centripetal and centrifugal forces intertwine in complex interdependence.

On the one hand, developing countries work out new, historically unprecedented and progressive forms of interstate cooperation that meet their common interests. These are the non-alignment movement, the formation in 1964 of the Group of 77 wthin the UN framework, as well as some regional and other organisations.

On the other hand, they are often unable to prevent hostile interrelations from coming to a head, which sometimes derive from the actual divergence of their interests, but more often than not, from the deliberate fanning of passions and the intrigues of reactionary forces seeking to gain advantages from such conflicts.

Regional conflicts now take place in Central America, the Middle East, South Asia and some regions of Africa. Behind the developing countries which initiate such conflicts stand, as a rule, external forces representing the more aggressive groups in Western countries. To counterpose these forces and turn all regions of the Third World into zones of peaceful co-operation of peoples whose basic interests coincide, a new way of thinking is needed which would discard obsolete dogmas and traditions of a backward society.

A third area of conflicts which is most important in respect to the global character of the problem of the back-

wardness and poverty of the Third World, lies in the general world economic and political relations.

The conflict between the Third World and the economically developed Western countries stems from the preservation and the growing scale of the non-equivalent exchange. Inasmuch as the law of value operating in the world market gives advantages to a more economically developed partner over the less developed, the developing countries have to defend their economic interests employing the legitimate means offered them by their national sovereignty. Economic policies can to a certain extent rectify the effects of the law of value unfavourable to the developing countries. As to the Western states and TNCs, they regard efforts by developing countries to defend their national sovereignty and economic interests as an encroachment on the free business activities. Whenever possible they resort to force to ensure the 'freedom of enterprise', which is nothing more than the freedom to exploit Asian, African and Latin American nations.

The Third World is replete with war bases of Western powers, above all of the US. Their fleets constantly ploy the waters near foreign shores. From time to time they strike at a particular developing country. In 1982, the British Navy supported by the US recaptured from Argentina the Falkland Islands (Islands Malvinas). In 1984, the US Navy invaded Grenada and deposed the government which endeavoured to uphold national interests and restrain the arbitrary actions of private capital. In 1987, the US dispatched formidable naval forces to the Persian Gulf.

Western economic, political and military efforts aim at preserving conditions which enable Western countries to maintain unequal relations with developing states. It is a form of non-equivalent exchange.

At the same time, reorganisation of international economic relations to ensure complete equivalence of exchange and thereby help overcome the backwardness of developing countries, would benefit the world economic development as a whole, including Western countries. A greater part of the population of Western countries, workers and farmers, the middle classes and many private firms would

gain much more if Asian, African and Latin American peoples were to progress along the road of overcoming backwardness, becoming modern societies and forming a constantly expanding market for all kinds of Western goods, including the more sophisticated.

In the past the metropolitan countries in colonial empires did all in their power to prevent the liberation of their overseas possessions from colonial dependence. They mistakenly believed that liberation would greatly impair the metropolitan economy. Life demonstrated that the disintegration of colonial empires contributed to a progressive restructuring of their economies, providing an impetus to the scientific and technological revolution. There was no disruption of supplies of raw materials from the overseas countries, nor did the revenues from private enterprise there decline. On the contrary, in 30 years of the non-equivalent exchange, the West received from the developing countries more profits than the metropolitan countries pumped out of their colonies in 300 years.

An end to the non-equivalent exchange would help expand economic ties to the benefit of all participants. If some lose part of their injustly earned revenues, this will be more than compensated by the general upsurge of economic activities and the growth of all kinds of profits both in the poor and the rich countries.

It is absolutely clear that backwardness and poverty fraught with dangerous conflicts cannot persist indefinitely. But every year missed aggravates the state of affairs, making the solution of the problem more difficult.

The global nature of the backwardness of developing countries calls for a global organisation of measures to overcome it. This does not mean that the developing countries themselves have no responsibility for development, that they can sit back and wait until the world community is in a position to ensure their development. Progress leading to the elimination of backwardness should proceed on the basis of the developing countries' own efforts, their reliance on their own forces and resources. However, these efforts, would prove abortive if their fruits were to be appropriated gratuitously by the exploiters through the system

of non-equivalent exchange. Thus, a rational system should be agreed upon and implemented on a global scale, one that would correspond to modern concepts of justice and progress.

What, then, are the alternative roads opening up before the developing countries in their effort to overcome backwardness? The next, concluding chapter seeks to provide an insight into the various alternatives of development.

*Questions for Self-examination*

—Why is it that the problem of backwardness and poverty has become one of the global problems of modern times?
—What is the essence of the concepts of the 'demonstration effect' and the 'catching-up development'?
—What is the connection between backwardness and poverty?
—What is the difference between absolute and relative poverty?
—In which spheres does the conflict-like potential of backwardness and poverty manifest itself?
—Is it possible to exclude non-equivalent exchange from the practice of international economic relations?

*Topics for Discussions*

—The aims of the elimination of backwardness and poverty.
—Wealth, poverty and social justice.
—The developing countries' role in a world free of military conflicts.

CHAPTER 16

# Alternatives of Development

Inasmuch as the overcoming of the backwardness and poverty of developing countries has today assumed the character of a global problem, the prospects for their economic and social development are directly associated with two spheres of life of their societies, the first being the world economy, of which they are an integral component. Their development forms part of the development of the entire civilisation and the changes in international economic relations considered in the preceding chapters—the establishment of the NIEO, international economic security, etc.—aim at securing for each Afro-Asian and Latin American country a corresponding milieu in the world.

By the second sphere we mean the internal progress of each particular country, the modernisation of its own society.

Though at first glance this sphere seems to be independent of the developments taking place outside the country's national borders, actually it is linked to the laws of world development just as closely as the sphere of its foreign-economic relations.

In today's world where social development follows two main roads, capitalist and socialist, where the interdependence between capitalist and socialist countries is on the increase, while the contradictions between and within them permeating society at all levels from the productive forces to the prevalent ideologies intertwine, the choice of a particular path of socio-economic development by each particular country inevitably makes it a participant in the historic competition of the two world systems.

Thus, such a choice is usually made amidst very sharp controversies which sometimes escalate into civil wars with a varying degree of interference on the part of external forces. At the same time, in economic theory there appear various competing concepts proposing various alternatives of development conducive or not conducive to the overcoming of contradictions inherent in the division of the world into rich and poor countries.

## 1. The Specific Programme of Greating a New World

Studies conducted under the auspices of the Club of Rome and published during the 1970's as its reports[1], met with a world-wide response, preparing the ground for advancing in the early 1980's a programme of the concrete construction of new world. It was most explicitly expounded in the book *Third World: Three-Quarters of the World* written by a group of authors under the editorship of Maurice Guernier, a member of that Club.[2]

Proceeding from the estimates arrived at by the Club of Rome, according to which world natural resources are precipitously being depleted and even today are not enough to enable the world population to enjoy the structure and volume of consumption of material values characteristic of Western society, the following directions are mapped out to orient the development of Asian, African and Latin American countries.

First, demographic growth should be stopped, so that the average fertility rate—of 2.1 children per one adult woman be maintained.

Second, these countries should completely refrain from imitating the economic models of both capitalist and socialist countries, avoiding by all means to seek to increase their GDP and to intensify consumption of material values. They should forgo their plans of industrialisation and set limits to scientific and technological progress in farming.

According to this concept, it is not increased production and consumption of material values that should be the decisive goal of individuals and society as a whole, but an in-

ner self-perfection of man, 'upgrading his qualities' and creating a system of new values in which material values will not by far hold the first place, for in line with some Eastern religions and philosophies it is man's spiritual world, his self-absorption that plays the main role in his inner self-perfection.

Such is the general basis of the programme for the building of a new specific world, one which is to be divided into several separate zones, each of which will be developing along its own, independent path distinct from those followed by the other zones.

The zones of North America, Western Europe, Japan, Australia and other countries where 'consumption societies' have asserted themselves, will remain, according to that programme, the basic consumers of the world resources which are declared to be the 'common heritage of mankind' irrespective of whose territory they are located on.

Developing countries should constitute five zones of their own: Latin America, Tropical Africa, the Near and the Middle East, the Indostan subcontinent and Southeast Asia. Each of these zones will represent a single economic complex with a common market and its own specific type of development. It is inside each zone that demographic, food, energy, industrialisation and other problems will be solved with an eye to its specific tasks and conditions. Since all young states with the rare exception of India, are too small to be able to build up endogenic industries, industrialisation should be arranged in the framework of closed common markets fenced off by high customs duties There should be no manufacture of goods to be exported beyond these markets.

In the agrarian sector, the authors of that concept see as their ideal closed rural communities uniting several neighbouring villages whose scientific and technological progress will be confined to the services of so-called progress advisers—'barefooted doctors, barefooted agronomists, and barefooted teachers'.

In line with this scheme, individual countries are to forgo their sovereignty in the economic sphere. Foreign eco-

nomic relations are to be established not between them, but between entire zones and this on the basis of such special agreements as would enable the communities of developed countries freely to receive the raw materials they need from the deposits and stocks of the Third World. In place of the United Nations, which, in the opinion of the authors had failed to put in order relations between national states, a world parliament should be elected and should direct the planet's entire life. In particular, it will have to define the procedure of using its resources which constitute the common heritage of mankind.

The programme considers that since the gap between the 'rich North' and the 'poor South' cannot be practically bridged, no such goal should be set. Developed and developing countries would co-exist apart from each other and evolve, following different paths: the former, on the basis of the 'mass-consumption society', the latter, accomplishing the task of the 'self-perfection of man' without increasing the consumption of material values.

According to the programme, regional economic communities of developing countries making up the above five zones, should be instrumental in the 're-birth of great civilisations' that existed in ancient times in Asia, Africa and Latin America.

In those ancient times great civilisations arose, developed and departed from the historical scene one by one. They occupied limited areas without extending to the entire planet as a global economic system. The question naturally arises: is it possible today when the world-wide interdependence of all countries and nations has become a reality to divide the world by some artificial schemes into a dozen of isolated zones? And again. Can the great civilisations of the past be considered as the real embodiment of an ideal society where inner self-perfection of man was dominant, while material values were of second-rate importance? And lastly, will the peoples today making up the majority of the planet's population agree to ascetic self-denial as regards those material values, which civilisation has made the standard of the modern way of life?

Separate existence of communities of people belonging to different ethnic groups and following different paths of development in the framework of one state, is now practised in the South Africa under the name of the apartheid system. The system has its own supporters who claim that it is precisely such a division into the privileged minority making up the 'consumption society' and the black majority living by the entirely different standards, that perfectly corresponds to the nature of man. But both the Africans themselves who are debarred from a developed community of whites created on African soil, and the world community at large condemn the apartheid system as one trampling under foot elementary human rights.

An artificial division of human civilisation into closed zones looks like an apartheid system established on a global scale. It presupposes the perpetuation of the division of nations into rich and poor, leaving intact the backwardness of Afro-Asian and Latin American peoples. But there is a rather prolonged experience of the development of some multinational states which effectively solve the problem of bringing the formerly underdeveloped nations nearer to the most advanced economic and cultural levels, thereby demonstrating the possibility of reaching the same results on a global scale.

The above pattern of the construction of a new 'specific world' runs counter to the requirements and interests of Western developed countries which need outside markets to sell the goods their expanding industries turn out. Should the greater part of mankind absorb itself in self-contemplation aspiring to inner self-perfection with reverence for lofty spiritual values and contempt for the material, who, then, is to buy the material goods the manufacturers of the rich countries dump on the world market in ever greater quantities?

Finance capital of the rich countries seeks for profitable application in the Third World. It strives to tear down barriers preventing it from the moving and crossing national frontiers.

Divided and closed zones defy the free movement of world finances which circulate day and night through chan-

nels permeating the entire planet like blood circulating in the vessels of the living body.

But the West, too, is subject to the cultural impact of the developing countries. Asia, Africa and Latin America are making an increasingly bigger contribution to the formation of a new world civilisation, to the development of world science and technology in particular. A large contingent of scientists and researchers from developing countries, their current formal citizenship notwithstanding, participate on a par with their counterparts from developed countries in research and development. Some of them have been awarded Nobel and other highly esteemed prizes. Still others have made outstanding scientific discoveries.

It is crystal-clear that despite the fact that humankind is divided into individual countries with precisely demarcated and alertly guarded borders, despite the policies pursued by the ruling circles in some of these countries, including big and powerful ones, despite the artificial division of the world and impeded international communication, the objective process of internationalising production and forming a universally human culture forges ahead, and gains momentum. In the future it will be determining the image of world civilisation to a still greater degree.

All cultures make contributions of their own to that civilisation. Every nation, no matter how small, has the right to develop its traditional culture and to be an equal participant in the development of humanity.

Human experience knows of no ideal model of an economic system. The more economically developed countries are either torn by sharp social and economic contradictions or constantly suffer from difficulties of one kind or another, experimentally trying different methods of management and various strategies of development. They need to reform their economic model just as much as the developing countries. Similarly, they are interested in the restructuring of international economic relations. The realisation that the economic system and the technological foundation of the contemporary West cannot be taken as the basis of the future world civilisation and as an example for the developing countries to follow, has given an impetus to the

quest of new alternative economic models, with the concept of 'another development' holding a prominent place among them.

## 2. The Concept of 'Another Development'

This concept rejects the idea of the 'catching-up development' which maintains that the economic gap between the rich and the poor countries can be expressed in differences between the per capita statistical indicators and formulates the targets of development in the form of the number of years it will take a particular country to catch up with the present (or the future) level of development of Western Europe or North America.

The concept of 'another development' was most explicitly expounded in the report of the Dag Hammarskjöld Foundation to the Seventh Special Session of the United Nations General Assembly, convened in 1975 to exclusively discuss just one issue—ensuring the development of Asian, African and Latin American countries.[3]

That concept proceeds from the circumstance that, though the world resources are limited, they will suffice to satisfy the natural needs of all people of the world, provided they are distributed evenly and used rationally. At the same time, it is essential to prevent such an excessive growth of the world population as could result in an absolute depletion of world resources. Hence, the future depends on the choice we make today.

'Another development' is characterised by three basic features: its aim is to meet man's natural needs; its means is the ample use of man's own abilities; its expected result is human society in harmony with its natural environment.

What is needed to implement this 'another development' is structural readjustment and the most diverse strategies in the political, economic and technological spheres, called for by the greatly differing situations in the various regions of the world where change is imperative.

The authors of the concept recognise that the division of the world into the poor and rich countries does not only hit hard the peoples of the poor countries. It also affects

adversely the rich countries proper, and is fraught with grave dangers for them.

The possibility to satisfy one's needs is considered to be the right of every person as a member of modern society. However, the concept of 'another development' singles out of the entire gamut of such needs a sequence of priorities deriving from the real possibilities in each country at the given time. In this sequence, the place of pride is given to the basic material needs essential for man's survival, i.e., adequate nutrition, clothing, housing, and health services.

Application of technology, its choice and development, production systems and distribution of material values, the drafting of social insurance programmes should all be subordinated to the aim of satisfying the basic needs of the population irrespective of the social standing of any particular person.

Imitation of the Western models of distribution in which the uneven economic development and inequality of people are the predominant factors will not, the Dag Hammarskjöld report stresses, permit the developing countries to reach these aims of development.

The conclusion is, therefore, made that it is necessary to shift the emphasis from the importation of consumer goods which are mainly intended for the elite imitating the Western way of life, to the expansion of the native production of mass-consumption goods for the population, the poor included.

As to the choice of technology, priority should be given to the local labour-intensive technology, not to the imported capital-intensive one. Thus, the concept recommends to use in the power industry not huge power plants operating on imported oil products, but less sophisticated sources of energy consuming local fuels and not abusing Nature.

The authors of the concept consider it unfortunate that after their liberation the developing countries had actually copied the structure of the administrative apparatus, the educational system and some other major elements of organisation of society using as examples the corresponding structures and institutions that existed at the time in their

former parent-countries, without taking into account specific local conditions.

'Another development' should be based on principles naturally maturing in the developing countries' society itself, and on its internal resources. It should be self-reliant, providing for the elimination of their economic and technological dependence on the developed countries. This, however, does not imply a striving for autarchy. Independence is understood to mean freedom in decision-making in all the spheres of economic activity, the foreign-economic relations included. Independence means the actual equality of any country in international economic relations. A sovereign and independent state must have the right and the real possibility, in case it decides that it is in its interests, to completely or partially isolate its economy from the external world for a certain period of time, although such an isolation can by no means be included in the notion of 'economic independence'.

A major element of the concept of 'another development' consists in that it denies the need for a single model of such development equally suitable for all developing countries. It would be much more useful to exchange experiences gained in the process of 'another development'.

The concept pays special attention to the conformity of technology and the entire economic activity of people in developing countries not only with the particular features of their national and social culture, but also with their specific natural and climatic conditions. Future generations must inherit from the present generation a natural environment fit for life. And, according to that concept, satisfaction of vital requirements does not call for overtaxing too much man's natural environment. For that reason, an extremely thrifty use of non-renewable resources and the self-reproductive use of renewable ones, should be a major component of 'another development'. What is more, due account should be taken of the possible impact thereof on the environment on local, national and global scale.

The 1975 Dag Hammarskjöld report especially stresses that the arms race and militarism overburden the world

resources and the environment, being a sheer waste of values universally possessed by mankind.

'Another development' can only be ensured by a restructuring on national and international levels, both in the developed and developing world. Opposed to such a restructuring is the political and economic power of Western countries whose ruling circles wish to preserve the existing basic principles of international economic relations based on the market economy after the inner economic structures of Western developed countries. In such an economy there is neither equality within each country, nor equal international relations between countries. The privileged minority consisting of the richer members of society in the developed countries and the elite of developing countries are exploiting the majority who are discriminated against and cannot, therefore, satisfy most elementary needs.

In the social and economic sphere, the 'another development' concept favours ownership of the producers themselves, and their control over the means of production—the land, minerals, water, factories and other industrial enterprises, infrastructure essential for the production of both the means of production and the consumer goods. Trade and the sphere of finances and credits should be organised in such a way as to preclude the appropriation of the economic surplus (the surplus product) by the minority of the population.

In the political sphere, these reforms mean the democratisation of government. State and private bureaucracy should be placed under public control.

All this should result in the creation of a society in which each local community will be in a position, on the basis of self-reliance, to govern its own affairs and enter into relations with other communities on an equal footing so as to resolve their common problems. Moreover, the state should regulate the functioning of social mechanism and especially strictly see to it that the rights of the weaker communities are secured and enjoy priority.

The way in which such a society can be created depends on the specific conditions obtaining in every particular case. The concept does not offer a universal recipe for all

countries, but holds that actions in that direction are a 'must' and they should not be postponed.

The United Nations should serve as a methodological and organisational center to implement 'another development'. The authors of the concept suggest that in India the minimal requirements of an adult person should amount to 4.5 kilogrammes of cereals per week.

The 'another development' concept uses as the criteria of the degree of wealth and poverty not comparisons between countries, but comparisons between the actual levels of consumption by the bulk of the population, its lower income groups in particular, and the minimal needs of an individual in the particular social milieu he lives in. In making such comparisons, it bases itself on the experiences of different countries and different social systems.

In this connection, it would be relevant to consider the experiences of development of the socialist-oriented countries, for this experience shows that, given the low level of economic development and the veritable defenselessness and vulnerability of the poor countries in international economic relations, it is socialism and socialist orientation that can and do bring about early and real fruits. This alternative has been chosen by many big and small countries in Europe, Asia, Africa and Latin America which have been long taking advantage of new principles both in developing their own national economies and in international economic relations.

### 3. Experiences of Socialism

More than seven decades ago the peoples of the Soviet Union chose an alternative of their own—socialism. After the Second World War, the peoples of some other countries also chose that alternative. Some former colonies also rejected capitalism as the path of their development.

Replacement of private ownership of the means of production by public ownership and collective labour provided the basis for placing the economy on a planned basis. With control of the economic levers, the socialist state was now in a position to effectively mobilise all the creative

forces of society to carry out nation-wide priority programmes, concentrating resources on the most important sectors of development and achieving large-scale results in a short time. The result was that in a short span of time, the USSR—the world's first socialist state—was transformed from a backward country whose economy was almost completely destroyed by protracted wars, into an advanced industrial power and this without any outside aid. A practically complete self-sufficiency was reached in one of the world's largest countries. For the present generation of this country hunger and malnutrition have become things of the remote past.

From a country with an almost completely illiterate population that a few oases of high national culture across the land, the USSR, thanks to socialism, has become a state of complete literacy with a high average educational standard.

In the first fifteen years since the Revolution, unemployment was gradually eliminated once and for all. In all the subsequent years, full employment of the population has been maintained in a planned manner. Socialism has to its credit such real gains as a considerably improved standard of living of the population, banishment of poverty and fear of the morrow, creation of a system of social guarantees granted by the Constitution and secured through the planned functioning of the economic mechanism based on public ownership.

Socialism has introduced into society free medical care accessible to the whole population, including the rural population in the country's most outlaying areas.

Socialism has made universal, obligatory and free education accessible to all, raising its standard. It has created conditions for the flourishing of people's culture, the arts and for man's physical and moral perfection.

Socialism has demonstrated that it can defend itself. It has built up an adequate defensive potential.

It is exactly under the impact of these indisputable results of socialist development that socialist ideas have spread throughout the world, giving hope to the peoples who want to overcome backwardness, ensure their economic, social

and cultural progress, peace and elimination of exploitation.

By its very experience, socialism has shown that a society can exist without exploitation and social injustice and that it is superior to societies where property-based inequality is on the rise, increasingly dividing their members into the privileged minority and the discriminated majority.

That is why the realisation is growing even among those public leaders of the Third World professing ideologies far from socialist, that socialist methods of running the economy may become a real alternative, making it possible to eliminate backwardness in the developing countries of today. This is what Raúl Prebisch, a most authoritative expert on issues of economic development and one-time Director-General of the Latin American Institute for Economic and Social Planning wrote in his report to the Inter-American Development Bank: 'But irrespective of such ideologies, the course of events might lead to the socialist method of development even if that had not been the original intention of those who set themselves to strengthen the dynamic impetus of the economic system'.[4]

At the same time, the experience of socialist-oriented countries has also demonstrated that that alternative is not a wizard's wand by waving which one can solve all complex problems of development at one stroke. Mere declarations in favour of socialism or socialist orientation will not suffice to stimulate economic development. Even the most profound and progressive socio-economic changes, if taken by themselves, cannot automatically build up a modern economy. The alternative in question raises even to a much greater extent than capitalism the responsibility of government authorities for economic development, increasing the gravity of mistakes and distortions they have been guilty of.

Like any other social phenomena, socialism is not devoid of contradictions, which serve as its driving force of development and at once as the source of negative factors, which would accumulate and complicate that development if society does not take prompt and effective steps to prevent them.

As a dynamic and developing system of relations, socialism has to improve itself and apply new ways of managing the economy that correspond to constantly changing conditions and requirements. The dogmatic concept of socialism as of something immutable and uniform for all times and peoples, is profoundly wrong and could impede real development if it begins to influence the practical activities of political and economic leaders.

The experiences of socialist development and of different socialist-oriented countries which are justly proud of their achievements in creating new and effective economic structures of national and international significance applicable to other countries facing similar problems, is very instructive also from the standpoint of their failures, and mistakes. These failures should be taken into account by those who, choosing a socialist alternative, can now use all its advantages without repeating the mistakes of the trailblazers.

The choice of a socialist alternative does not mean clear sailing and a care-free future. One cannot accelerate society's development and do away with economic backwardness without extremely great efforts and sacrifices. The greater the backwardness the higher price. But what is needed is people's high consciousness, their political unity and their firm conviction that the road has been correctly chosen. At the same time, it is important to avoid unnecessary sacrifices and hardships, abusing people's patience. The incompetence and unscrupulousness of some leaders, their violation of the lofty principles of social justice should not be hidden by empty words about socialism.

Socialist experience has demonstrated that infatuation with social reforms can only cause harm if the latter are carried through all too hastily, not understood or supported by the workers themselves and not backed up by adequate material and organisational conditions.

Every progressive transformation is intrinsically fraught with contradictions which, under certain circumstances, may engender complications and lead to results opposite to those intended. Excessive or hasty nationalisation of some industrial enterprises may result in their lower efficiency.

Coercion and violation of the principle of free choice and other abuses of power in the process of socialising farming when erroneous systems of distribution are used, violating social justice and discouraging better performance, can greatly prejudice agriculture and cattle-breeding, undermining a secure supply of foodstuffs to the population.

Success of socialist construction can only be ensured if objective economic laws are strictly observed, and voluntarism and amateurish approaches are done away with in running the economy. Social ownership endows the state with great possibilities, but at the same time it calls for great responsibilities.

Socialism and socialist orientation do not presuppose a complete socialisation of all the means of production and elimination of all economic forms other than state-owned or cooperative enterprises. Labour activity by individuals and private enterprise, mixed (joint) enterprises in which state and private capital share, leasing of state-owned industrial and other facilities to private individuals, families or co-operative associations and other patterns of producing and selling goods in the free market—all form an integral part of the economic mechanism of the socialist economy.

General laws governing socialist economy do not mean that a strict pattern of socialist economy has to be followed. Different socialist countries use the most suitable forms and methods with due regard for their specific conditions. The above forms and methods are worked out on the basis of a combination of scientific approaches and advanced practical experience, of all that is economically progressive in other countries, including those following the capitalist pattern of development.

Socialism needs the widest possible democracy not only in the political, but also in the economic sphere. The working people themselves share actively in economic planning and in managing their particular enterprises and the economy generally. In the USSR, in the course of radical restructuring, the practice has arisen of electing directors of state-owned enterprises and other executives by work col-

lectives themselves. The questions of economic policy are discussed by general public.

Though the experience of the first socialist state has demonstrated that a fairly large country can overcome backwardness through its own efforts, socialism by no means implies the country's isolation from the rest of the world. On the contrary, it is interested in developing large-scale economic cooperation with all countries belonging to different social and economic systems. Participating in international economic relations, socialist countries impart to them new elements and patterns conducive to their democratisation.

## 4. International Economic Relations of a New Type

The socialist countries have reached different levels of economic development and differ from each other in terms of their areas, the size of their populations, economic structures, and the particular kinds of foreign-economic relations that developed. But the important thing is that in the socialist world there is no division of countries into rich and poor. The general trend of the results of the economic exchange between them is directed at bringing closer together and evening out their economic development levels.

Mutual interest in developing economic cooperation found expression in the fact that trade between all socialist countries began to account for the bulk of their overall foreign trade, though in the past there were practically no commercal links between some of them. Mutual trade benefits all the participants. It is equitable and proceeds on the basis of inter-government agreements and in line with the plans agreed upon previously. The world socialist market has developed as a special zone of the world economy with its specific economic laws and new patterns of international economic intercourse.

From its very inception, the socialist world economy has been based on the principle of mutual assistance. The partners do not strive to extract the highest possible profits at the expense of each other. In January 1949, the European socialist countries founded the Council for Mutual Eco-

nomic Assistance (CMEA) composed of Bulgaria, Hungary, the GDR, Poland, Romania, the USSR, Czechoslovakia. Later on it was joined by Cuba, Mongolia and Vietnam. CMEA is an open economic integrational association in which any state can participate using various forms. On issues of mutual interest the following states take part in CMEA-sponsored activities: Yugoslavia, Finland, Iraq, Mexico, Angola, Mozambique, Nicaragua and the People's Democratic Republic of Yemen. Representatives of the Korean People's Democratic Republic, Laos and Afghanistan participate in the sessions of CMEA bodies as observers. CMEA maintains contacts with over 60 international organisations. In 1974 the UN granted it the status of an observer.

A ramified mechanism has been set up within the CMEA consisting of a supreme leading body of heads of state and government of the member countries, the International Bank of Economic Cooperation and the International Investment Bank, common international currency, joint ventures, specific national-economic programmes and projects. At the present time, CMEA activities are guided by the Comprehensive Programme of socialist economic integration and five long-term (till 1990) target programmes. National economic plans of CMEA countries are regularly coordinated.

The Comprehensive Programme orients each country on the utmost mobilisation and effective use of its own resources, taking advantage of the international division of labour. It helps each country to most effectively participate in forming their national economies as a component part of the socialist world economy with respective specialisation and cooperation of production. Terms of international exchange, including the fixation of prices, interest rates, terms of credits, and standards are to be agreed upon taking account of the actual economic situation and mutual interests. Moreover, various benefits and preferences as regards prices, interest rates and terms of credits are granted to the less developed CMEA member countries (Mongolia, Cuba and Vietnam).

National sovereignty is sacredly respected. There can be no interference in internal affairs and no single country

claims any privileges to the detriment of other or of the socialist community as a whole.

Economic cooperation and mutual assistance developing which CMEA member countries have to overcome quite a few difficulties (some of them objective as well as the result of mistakes by the leading personnel at different levels) are of substantial use to each national economy, especially at a time when it finds itself for one reason or another in a grave plight.

CMEA activities in the past 40 years have enriched international economic relations with new forms of economic relations between countries where the participating producers are state-owned, not privately-owned enterprises. They have demonstrated the viability of these forms and the need to constantly improve and renovate them. They have shown that it is possible to maintain international economic relations free of exploitation and of equal benefit to all.

They have also demonstrated that it is necessary to strive to achieve the highest possible rationality and economic efficiency in each socialist country and use the traditional forms of world trade, credits and other forms of international economic relations in cooperation. A planned development of economic cooperation between socialist countries should fully meet the requirements of the law of value and other laws of commodity production and commodity-money exchange. It should be safeguarded against voluntarism, incompetence and economically fallacious solutions.

At the same time, such a development should help realise social tasks of raising the living standards of the population, and heed the global problems, in particular, the need to prevent an ecological catastrophe and make good the damage already done to Nature.

International economic relations of a new type that have developed in the world socialist system transcend the bounds of that system. They impart their ideas, procedures and practices also to the economic relations of socialist countries with developing countries. They are an alternative to those traditional economic ties perpetuating the division of countries into the rich and poor and determining the unev-

en character of development of the capitalist world economy.

These relations are based on the laws and regulations governing the world market. But here developing countries, their state-owned and private enterprises enter into business relations not with TNCs or private firms, as is the case with developed capitalist countries, but with state-owned organisations. This means that trade and other kinds of foreign economic relations can be planned, becoming thus more stable and more secure. As a rule, they are regulated by inter-government agreements and treaties and substantiated by respective measures stipulated by the national plans of economic development.

It is only natural that each country should be guided by its own interests in trading with its partners, for there is no place for charity in mutual trade. But in the case of socialism, trade partners are truly equal partners, for its very nature rejects pressure, use of force and upholds economic relations without any political or military strings attached. Socialist states do not practise discrimination or restrictions against the developing countries. Though some socialist countries use different systems of preferences applied to developing countries, these systems have one distinctive feature in common: lifting altogether or lowering duties on the goods of the traditional exports of developing countries and on their manufactured goods, no interests on loans to the least developed countries and untied concessions.

Trade relations between socialist and developing countries are closely linked to other kinds of ties to form a single system of economic and scientific and technological cooperation.

Assistance to Third World countries in developing their economy, national industry above all, holds a forefront place in the overall cooperation. In rendering it, socialist countries, as distinct from TNCs, do not make direct investments on the territory of developing countries and, consequently, do not use it to boost and extend their business activities. Industrial and other enterprises built up with the assistance of socialist states are owned by the countries

on whose territory they are located. Most are state-owned, some are the property of private firms.

The economic restructuring now taking place in socialist countries aimed at raising economic efficiency, envisages the launching of joint ventures of the socialist state and foreign capital, including the capital of developing countries. This opens up new and promising prospects for wider use of new patterns of economic cooperation between socialist and developing countries.

That socialist countries do not invest directly into developing countries precludes the rise of a complex and grave problem such as the transfer abroad of profits in which exploitation of the local labour force by foreign capital is materialised.

Credit relations between socialist and developing states have their specific features. Credits granted in the currency of a socialist state have much lower interest rates compared with those charged in the open world money market. Moreover, agreements often envisage the possibility of reimbursing the credit with part of the output of the enterprise built with the credit. In this way, the developing country concerned has no problem in marketing its products and loading the production capacities of its industry.

Cooperation of socialist countries makes no small contribution to the training of national personnel of experts, specialists and skilled workers for the developing countries.

For the developing countries the new type of international economic relations has another result: these relations may serve them as a model of what they could require from Western powers. For basic principles and main organisational forms making up the essence of the new international economic order have been introduced in the practice of cooperation between socialist and developing states and they have stood the test of time.

However, this does not mean that the relations of socialist and developing countries are fully free of any contradictions and that their interests are absolutely identical. Essentially, they have common or rather similar aims which makes it possible to find an effective way out of contra-

dictory situations on a mutually acceptable basis, without resorting to force, economic discrimination or military and political blackmail.

In this way, socialism represents a positive alternative to national development and international economic cooperation whose potentialities are just beginning to come into full play.

*Questions for Self-examination*

—What is the essence of the concept of the 'construction of a new specific world'?

—What are the basic implications of the concept of 'another development'?

—What underlies planned economic development in socialist countries?

—What innovations has socialism introduced into society's economic and social life?

—What are the reasons for complications and problems in the socialist economy?

—Do socialism or socialist orientation imply the economic isolation of the country concerned from the rest of the world?

—What is the Council for Mutual Economic Development?

—What are the basic socialist principles of international economic relations?

*Topics for Discussion*

—Orientation alternatives in the social and economic development and the future of humanity.

—Advantages and contradictions of socialist orientation.

—Basic differences between the economic and scientific and technological cooperation of socialist countries with developing countries and the Western aid to development.

# CONCLUSION

Concluding pages of the book... What thoughts and emotions has it evoked in our readers? Is it pessimism over the gloomy picture of great hardships, frustrating contradictions and far from reassuring results of the state and functioning of the world economy which, organised as it is today, promises poor countries little chance of overcoming their backwardness, while enabling the rich countries to continue to appropriate the labour and natural wealth of other peoples? Or it is optimism aroused by the veritably fantastic successes of Mans' genius which are materialised in the state-of-the-art achievements of science and technology, by the tangible process of ever greater and increasingly growing interdependence of all nations, by the prospect that global problems, overcoming the backwardness of the poor countries in particular, are sure to be solved sooner or later?

Having completed his work with the book and his course in *The Economies of Rich and Poor Countries,* the reader may now boldly embark on the great road leading to the boundless domain of economics. What place does the country he or she comes from hold in the system of the world economy which we undertook to analyse in this manual? In which way do the problems raised in it relate to your own country? The authors hope that the book will not remain a monologue, that it will lead up to a dialogue.

Today, the world changes tempestuously and a book depicting the state of the world economy and examining international economic relations may soon become obsolete. Especially short-lived are absolute data and other statis-

tics. However, our manual deals mainly with fundamental laws operating rather constantly. Thus, the law of value, which played a decisive role in world trade in the past age-long periods, today, too, operates as of old, and in the foreseeable future it will generally determine the predominant trends of world trade. Any reform in the sphere of international economic relations should, therefore, necessarily consider the operation of the law of value. Focusing the reader's attention on such general laws, the authors believe that the basic information of the book cannot become outdated too soon, for it is not the random circumstances taken in the context of the current time, but profound and substantial characteristics of the world economic system proper that it deals with, including the types of countries that have recently been formed and will remain such for a fairly long time.

At the same time, from many analytical assessments of international economic relations given in the book, the conclusion may be drawn that these relations ought to be radically and comprehensively restructured. Such restructuring cannot be accomplished at one stroke. It will take much time, passing through a specific transitional period, during which various countries, corporations and other economic entities will be actively adapting themselves to the new terms and regulations of economic communication.

Until recently, various projects to re-shape world economic ties were prepared under the auspices of Western economists, political and public leaders. Widely known are the 1975 Dag Hammarskjöld Report, reports by the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt (the 1970's and the 1980's) and others. In the autumn of 1987, the Commission of the South under the Chairmanship of Julius K. Nyerere, Tanzania's first President, began functioning in Geneva. In this way, an independent international commission to study the economic problems of developing countries was for the first time created by the developing countries themselves.

The Commission did not begin its work from the scratch.

The poor countries were not poor intellectually any longer. Brilliant economists and highly competent experts appeared, while their leaders became very well versed in managing the economy. They gained much experience in conducting international economic relations and intricate diplomacy where one had to have outstanding abilities to defend the national interests of one's country. The non-alignment movement projected the economic problems of the poor countries and the new international economic order to the forefront in international affairs. At most representative world forums, the collective economic interests of the poor countries were represented and upheld by the Group of 77, which was founded in 1964 and now comprises about 130 developing states.

National economic interests and the creation of a just international economic order have ceased to be the concern of a narrow circle of experts on the world economy and political leaders. These issues are now in the focus of public opinion. And the peoples of all countries of the world, rich and the poor alike, capitalist and socialist, must have relevant knowledge. They should know the way the objective economic laws operate and the extent to which national and international organisations can influence their operation. Illusions that individuals and organisations vested with power can act in the economic sphere disregarding objective economic laws, give rise to voluntarism whose consequences may prove very grave, even disastrous. Such practices lead to results opposite to those intended.

This book seeks to provide you with exactly this kind of knowledge. Whether the authors succeeded, it is for you to judge. If today, amidst the enormous information, you are better equipped to understand what actually takes place in international economic relations and are able to form your own opinion of what is beneficial or detrimental to your country, can judge for yourself to what extent the decisions made in the economic sphere meet the actual needs of society, the authors would be happy to know that their work has not been in vain.

And last, but not least, the authors express the hope

that this book has aroused your interest in international economic problems that, whatever your occupation or trade, you will follow with interest the developments in the world economy, reading economic and other literature dealing with these problems. We hope that the aim we set ourselves, that of preparing our readers to feel at home with this kind of literature, which requires a definite store of knowledge, has also been reached.

If the reader thinks the book has been useful and deserves a second edition, critical remarks, recommendations and suggestions are most welcome, just as are observations concerning unique and instructive developments in various countries requiring scientific explanations and analysis. The authors will be grateful to all who send their comments on the book to Progress Publishers.

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